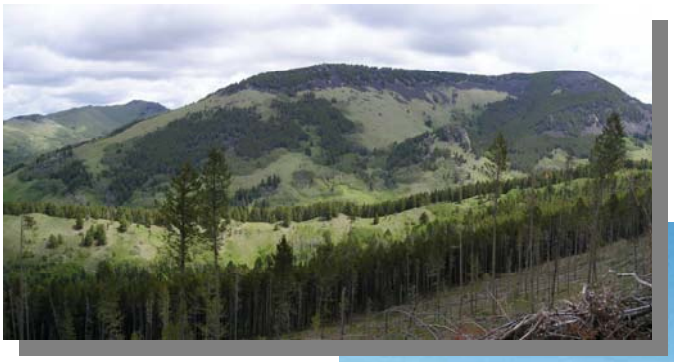


Report on
Return on Asset Value by Trust and Land Office for State Trust Lands

Fiscal Year 2006

December 2006

Prepared By
Trust Land Management Division
Department of Natural Resources and Conservation

TABLE OF CONTENTS

Inside Cover – Insert Map on the top

Abbreviation table on the bottom of the inside cover

ABBREVIATIONS AND ACRONYMS USED IN THIS REPORT

ACB – Montana State University 2nd grant
ACI – Montana State University Morrill grant
CS – Common Schools (K-12)
DB – School for the Deaf & Blind
PB – Public Buildings
M Tech – Montana Tech of The University of Montana
SNS – State Normal Schools
Montana State University – Billings
The University of Montana - Western
SRS – State Reform Schools (Pine Hills)
UNIV – The University of Montana

CLO – Central Land Office
ELO – Eastern Land Office
NELO – Northeastern Land Office

AGMB – Ag and Grazing Management Bureau
DNRC – Montana Department of Natural Resources and Conservation
FMB – Forest Management Bureau
FI – Forest Improvement Program
MMB – Minerals Management Bureau
REMB – Real Estate Management Bureau
WSLCA – Western States Land Commissioners Association

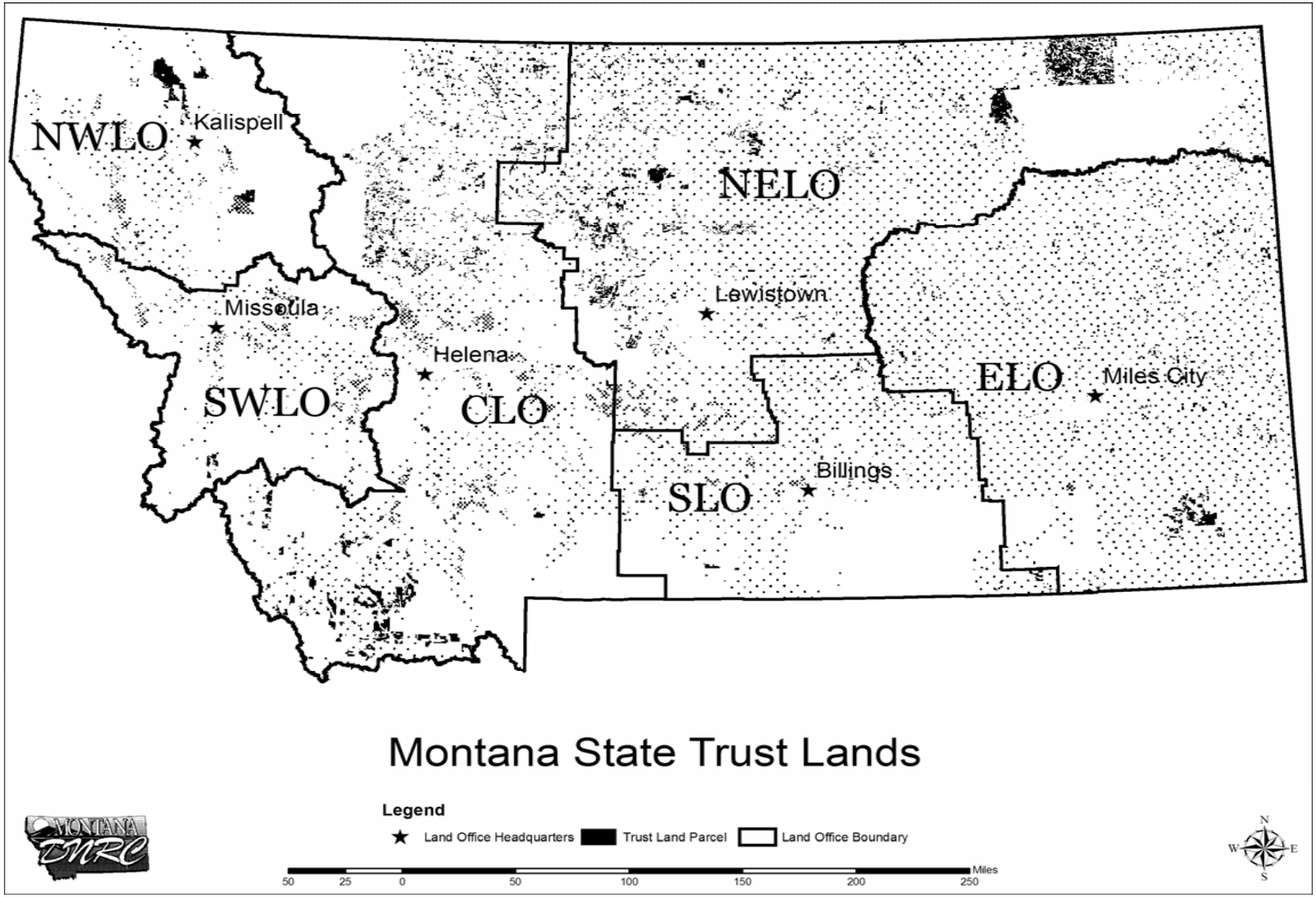
NWLO – Northwestern Land Office
SLO – Southern Land Office
SWLO – Southwestern Land Office

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
1625 Eleventh Avenue
P.O. Box 201601
Helena, MT 59620-1601
www.dnrc.mt.gov
www.dnrc.mt.gov/trust/

XX copies of this document were published at an estimated cost of $X.XX per copy. The total cost of $XXX includes $xxxx for printing and $00 for distribution.

Persons with disabilities who need an alternative, accessible format of this document should contact DNRC at the address above. Phone 406 444-2074; fax 406 444-2684.

Photos courtesy of Hoyt Richards, TLMD Staff


NWLO
Kalispell
NELO
Lewistown
Missoula
Helena
SWLO
CLO
ELO
Miles City
Billings
SLO
Montana State Trust Lands
Legend
Land Office Headquarters
Trust Land Parcel
Land Office Boundary
Miles
50
25
0
50
100
150
200
250
N
W
E
S

Trust Land Management Division Mission

Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land

Return on Asset Value by Trust and Land Office for State Trust Lands

Fiscal Year 2006

RETURN ON ASSETS – TRUST LAND MANAGEMENT DIVISION MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

I. Introduction

The FY 2006 Return on Assets Report for the Trust Land Management Division reports the earnings from resource management and the estimated asset value of all resources for all of the trust beneficiaries. It also includes the Return on Assets for Classified Forest Lands Report required by the Montana Legislature. The 5.1 million surface acres of trust land constitute over 5% of the surface land area in the state, the second largest real estate holding in Montana. The 6.2 million acre subsurface ownership is more than 6% of the total subsurface acres. The information published in this report details the financial performance of the Trust Land Management Division and the associated resource management programs.

The report is comprised of two components. The first examines all revenue sources on the same basis and time frame using a method based on current year information and techniques appropriate to the resource. The second analyzes the return to Classified Forest Lands using the method prescribed by 77-1-223, MCA through 77-1-225, MCA.

No significant changes in base data such as acreage realignments are needed for FY 2006; however, as changes are made to the acreages managed by the individual bureaus through land banking, exchanges, or acquisitions, acreages will be adjusted. This year the method and asset valuation method was reviewed and improvements made for nearly every bureau. As in previous reports, the data is most accurate at the total trust and land office levels. The "Trust by Land Office" data estimates are improved over last year and will continue to be refined as better quality data requiring fewer estimates becomes available.

The Real Estate Management Bureau's (REMB) first major venture into land banking occurred in FY 2006. The auction of land in the Northwestern Land Office (NWLO) provided the bureau with funds to purchase additional higher yielding accessible lands elsewhere. For the Forest Management Bureau (FMB), the rapid increase in prices in the previous two years ended with decreasing prices for both dimension and panel prices with a corresponding decrease in log prices at the mills. The impact on revenues was small and resulted in a slightly lower total revenue than in the previous two years. The Minerals Management Bureau (MMB) increased price levels remained strong, resulting in increased resource production and generating a substantial increase in revenue. Prices also increased for agricultural products which, when combined with increased yields, increased the revenue generated by the Agriculture and Grazing Management Bureau (AGMB). Overall, the four bureaus generated more current year gross revenue in

FY 2006 than in any prior year. After adjusting for price levels, FY 2006 is one of the best revenue earning years in the trusts' history.

Methodology

The methodology used for this report is similar to that used in prior reports unless otherwise specified. Changes to methodology are generally specific to a particular estimate, are noted when used, and not of a broad nature. This year's review of asset values included some changes in the estimation methodology, which are discussed with the estimates in the Appendix. One of the more important changes involves the methodology for estimating asset values for some of the land classifications.

Note: Tables do not always balance, particularly when rounded numbers are being used. Years identified in figures refer to fiscal years unless otherwise identified.

II. Production and Prices

This section discusses the production generated and prices received by the different bureaus during the fiscal year.

Commodity prices were mixed in FY 2006. MMB prices were up as oil and gas prices remained high for the year which, when combined with increased production, yielded historically high revenue for the bureau. The FMB experienced decreasing stumpage prices through most of FY 2006, although these prices decreases are not fully reflected in revenues due to the difference in sale and harvest dates. The effect of the price changes and the small change in production from trust lands resulted in decreased revenue and a slightly lower return from timber harvest to the trusts in the form of distributable revenue. Agriculture prices and production were up marginally resulting in higher agricultural revenue for the trusts. Increases in easement, license, and lease revenue increased gross returns from the REMB. The overall effect has been an increase in gross trust revenue for FY 2006.

The production of most energy minerals increased in FY 2006. Coalbed methane activity continues to develop with the number of producing wells increasing from 63 in FY 2005 to 110 in FY 2006. Production of coalbed methane, however, declined 13% despite the increase in the number of producing wells. Production increased for oil, gas, and coal.

In FY 2006, 53.3 million board feet of timber was sold from state trust land. Stumpage prices fell considerably toward the end of FY 2006. Despite declining prices, 56.5 million board feet of timber was harvested. As a result of the lower prices and harvest volume, timber revenue dropped from the FY 2005 high of $13.7 million to $13.0 million in FY 2006. Lower prices appear to be impacting harvest levels at the beginning of FY 2007.

Agriculture and grazing revenue was up again in FY 2006. Improved prices for agricultural commodities and improved production (due primarily to improved moisture) increased the revenue earned on trust lands. Gross revenues are at the highest point for both grazing and agricultural leases for the period FY 2001-FY 2006. If prices continue to increase, agriculture and grazing revenues should remain strong, particularly if land holdings are improved through the land banking program.

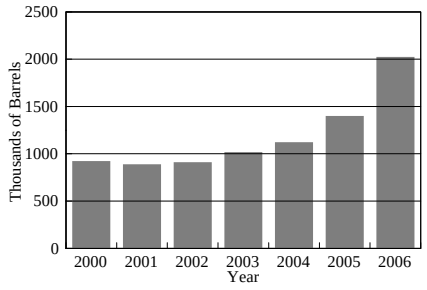
The REMB increased gross revenue slightly this year due to the continuing reappraisal process for leased properties as well as increases in license and lease fees. Revenues from land sales and acquisitions should continue to expand as the land banking program expands. These changes will have small, short-term effects but their impact should be noticeable in the form of higher revenues from the newly acquired lands over time.

A. Production

- Oil & Gas

Figure 1a shows the production of oil from trust lands for the last seven years. Oil from state trust lands is extracted by private companies who base production levels on market price, demand, production costs, the quality of the oil produced, and long-term contractual obligations. Trust oil production has increased in the last three years in response to higher prices resulting from an increase in demand by consumers and, more recently, to reduced oil production by major foreign producers. The increase in production has increased gross oil revenue by nearly $15 million and also contributed to the increased return on assets for the MMB.

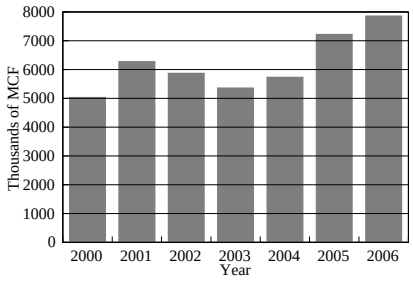
Figure 1a
Montana Department of Natural Resources and Conservation
Oil Production on State Trust Lands 2000 - 2006



Source: MontanaDepartment of Natural Resources and Conservation

Figure 1b shows the production of natural gas in million cubic feet (MCF) from trust lands for the last seven years. The general trend in production has been increasing. FY 2006 saw an 8.8% increase in the production of natural gas, the highest natural gas production year of the seven-year period. The increase in gas prices has stimulated the continued increase in production.

Figure 1b
Montana Department of Natural Resources and Conservation
Natural Gas Production on State Trust Lands 2000 - 2006

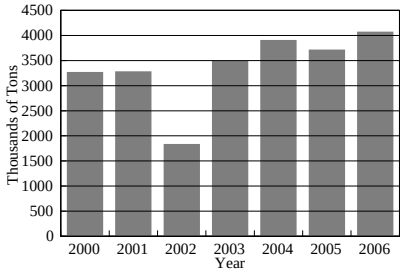


Source: Montana Department of Natural Resources and Conservation

- Coal

The production of coal increased by 9.7 % in FY 2006 continuing the upward trend from FY 2000 to the present. Coal production in any one year can vary substantially as mining operations move on and off state leases. This was the primary reason for the low production level in 2002. Some of the coal produced from Montana trust lands contains comparatively high levels of sodium. This makes the coal more difficult to use and reduces its value and marketability.

Figure 1c
Montana Department of Natural Resource and Conservation
Coal Production on State Trust Lands 2000 - 2006

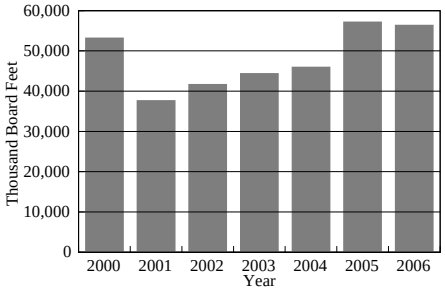


Source: Montana Department of Natural Resources and Conservation

- Timber

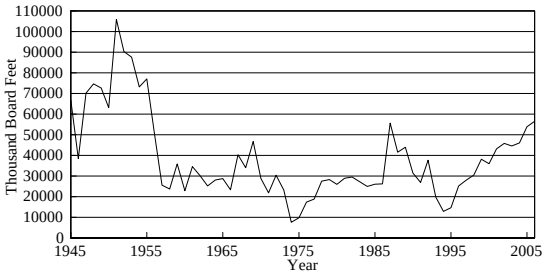
Figure 2a displays the timber harvest from bid sales and permits for FY 2000 to FY 2006. Timber harvests fluctuate from year to year depending on current price, expected future price, episodic events such as fires, and availability of logs from other sources. The harvest for FY 2006 is the second highest in the last seven years. The low harvest level of FY 2001 was the first year in a five-year period of continually increasing harvests. Harvest levels are expected to drop in FY 2007 as a result of declining market prices. The growth in FY 2006 was driven by the higher prices in FY 2005 that carried over into early FY 2006.

Figure 2a
Montana Deparment of Natural Resources and Conservation
Timber Harvest from Bid Sales



Source: Montana Department of Natural Resources and Conservation

Figure 2b
Montana Department of Natural Resources and Conservation
Annual harvest 1945 to 2006

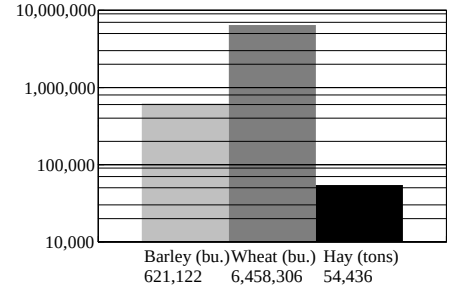


Source: Montana Department of Natural Resources and Conservation

Figure 2b shows the historic bid sales harvest level on state lands from 1945 to the present. Current harvest levels appear to be within the “normal” range since 1958 (mean 30758 and Std Dev 11040). Before that time, harvest levels were much higher.

- Agriculture and Grazing

Figure 3
Montana Department of Natural Resources and Conservation
Production of Major Crops on State Lands - FY 2006



Source: Montana Department of Natural Resources and Conservation

Agriculture production for FY 2006 is shown in Figure 3. The most important crop for Montana trust land lessees was wheat, which had a production level nearly nine times the amount of the next two highest agricultural commodities. Production levels are important since they impact the amount of revenue received by DNRC from lessees. FY 2006 agricultural commodity production was up 4 percent for wheat and hay and down 20 percent for barley compared to FY 2005 levels.

B. Prices

The primary outputs of the department are natural resource commodities. The department has little impact on market prices because in most instances the various bureaus comprise such a small segment of the market that its prices and commodity production is easily absorbed into the market. In these circumstances the market prices, the prices received for bureau commodities, are driven by "outside" players who do produce a sufficiently large share of the market to influence the prices or by the broader competitive market which relies on consumer preferences and resource sufficiency. In this year's return on assets report, prices for the various commodities will be analyzed using long-term price trends. In order to limit the analysis, some general market adjustment mechanisms will be discussed within the analysis of each of the commodities together with market issues specific to the individual commodity.

Supply side adjustment to a change in prices, primarily, reduces the amount of output if prices fall, or increases output if prices rise. Reductions in output for falling prices reduces inventories and often makes unit production costs decrease, particularly if the producer is pushing plant capacity. Increases in output as a result of price increases total profits.

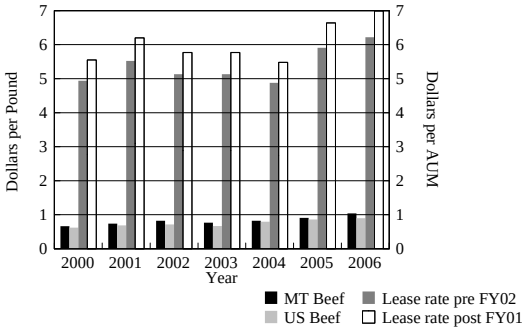
Demand side adjustment to a price change is generally to increase purchases if prices fall and to reduce purchases if prices increase, if possible. The ability of consumers to reduce consumption when a price increases is usually limited by the availability of substitutes and their prices.

The demand and supply relationships tend to move the market towards an equilibrium where prices adjust so that supply and demand for a commodity are in balance. Factors that limit adjustments will limit and constrain market adjustment mechanisms and distort the prices by either making them lower or higher than they would be under an unconstrained market condition. This usually generates shortages and high prices in the market for the particular commodity. The market in which the various commodities operate will be discussed under each of the commodities.

- Agriculture and Grazing

In the case of grazing, prices received for leases are directly tied to the price of beef. Figure 4 shows the Montana- and U.S.-led beef prices compared with grazing lease rates received from state trust lands. Since acres of land leased each year do not vary significantly, revenue from year to year is determined primarily on the basis of lease rates. Lease rates are adjusted based on Montana beef prices. U.S. beef prices follow much the same pattern as Montana beef prices, but Montana prices have generally been above the average U.S. prices in recent years.

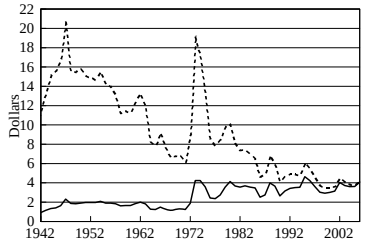
Figure 4
Montana Department of Natural Resources and Conservation
A Comparison of Beef Prices and Trust Land Lease Rates



Source: Montana Department of Natural Resources and Conservation

The return earned by the lessee from crops grown on the property primarily determines lease revenue for agricultural properties. As shown earlier, yields in FY 2006 were up. Prices for wheat were up strongly in FY 2006, particularly in the last half. Barley prices were better than in 2005, but hay prices were down. The overall impact has been increased agricultural lease revenue in FY 2006. The dependence of the trust on crop production makes it difficult for the AGMB to have a stable income source from agricultural leases. To bring some stability to this part of the program, the bureau will request authority in the 2007 Legislature to convert agricultural leases to a cash basis similar to those now offered in the grazing program.

Figure 4a
Montana Department of Natural Resouces and Conservation
Montana Wheat Prices 1942 to 2006
(Current and Constant* Dollars)

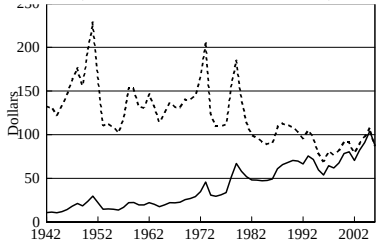


* 2006 price deflator = 100 (base year)

Source: US Departments of Agriculture and Commerce

Figure 4a shows the long-term prices for Montana wheat in terms of current dollars and in constant 2006 dollars (sometimes referred to as real dollars). Current dollars reflect the price of wheat in the year in which it was sold. Constant dollars are adjusted for inflation and represent the price of wheat if based on the purchasing power of the dollar in 2006. Thus, wheat purchased in 1969 for $1.23 a bushel would cost $6.72 if purchased with 2006 dollars. What figure 4a does not show is that the real costs of producing agricultural commodities is increasing which means that profit margins in agriculture are being reduced. Since trust revenue depends on farmers making a profit, future revenues in the agricultural program could be threatened without improvement in farmer revenue. Figure 4b portrays the same information for beef prices. Beef producers have a problem similar to the farmers except that in recent years prices have increased so that beef producer profits are not "narrowed" as much as wheat producer profits.

Figure 4b
Montana Department of Natural Resouces and Conservation
Montana Beef Prices 1942 to 2006
(Current and constant dollars)



* 2006 price deflator = 100 (base year)

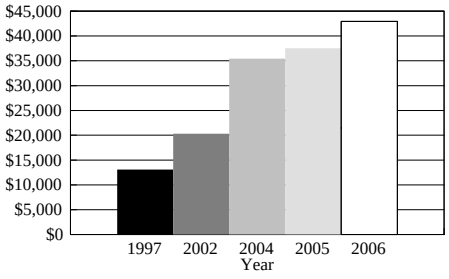
Source: US Departments of Agriculture and Commerce

As indicated earlier, with the low prices in agriculture the market would normally supply lower quantities of agricultural commodities. In many cases, this is happening to domestic supplies; however, foreign lower cost producers are able to supply additional agricultural commodities and make a profit, limiting the effects of reduced production by domestic producers. This improves the situation for domestic consumers, continues to restrict the output and profits of domestic producers , and limits revenue to the trust due to low prices for commodities.

- Real Estate

In the Real Estate Management Bureau, most revenue is generated from real estate leasing and licenses. Lease rates are not directly tied to the housing market; they are tied to the appraised property value, which depends on the overall market value for real property.

Figure 5a
Montana Department of Natural Resources and Conservation
Average Appraised Value Per Lease



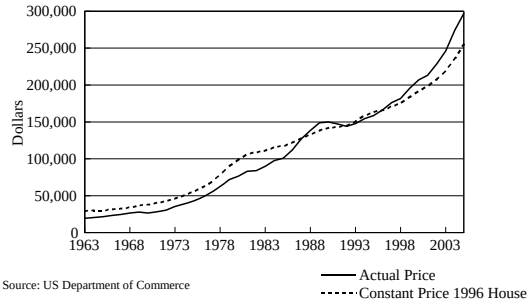
Source: Montana Department of Natural Resources and Conservation

Figure 5a displays the average appraised price for real estate leases in FY 1997 ($13,089), FY 2002 ($20,322), FY 2004 ($35,411), FY 2005 ($37,522) and

FY 2006 ($42,920). This increase represents an annual average increase in valuation of 12.6 percent over the 10-year period.

Figure 5b shows the calendar year long-term trend in housing prices in real and constant dollar prices for the United States. The constant dollar price is somewhat different than for the agriculture sector because it is based on average 1996 house characteristics. Typically, indexes are modified periodically to reflect changes in preferences by consumer for the product being measured. This index does not make these adjustments. The fact that the size of an average new single-family house increased from 1,660 square feet in 1973 to 2,434 square feet in 2005, a 46% increase, is not accounted for in this index. One of the most notable features of this graph is that overall housing prices are increasing in both real and constant dollars, unlike the agriculture sector where real prices are falling. This reflects a more healthy industry where revenues are more likely to keep pace with or even surpass cost increases. While some short-term decreases have been seen in the housing market (late '80s to early '90s), the trend of overall increasing housing prices has induced continued growth in the production of housing.

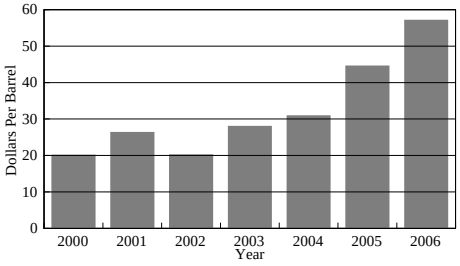
Figure 5b
Montana Department of Natural Resources and Conservation
United States Real and Constant Dollar Housing Costs



Source: US Department of Commerce

- Oil & Gas

Figure 6a
Montana Department of Natural Resources and Conservation
Prices for Oil Produced on State Trust Lands 2000-2006



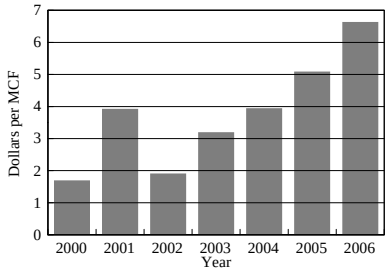
Source: Montana Department of Natural Resources and Conservation

Figure 6a depicts the price received for oil produced on state trust lands since FY 2000. Similar to FY 2005, FY 2006 oil prices climbed to $57.24 per barrel, a 28 percent increase over FY 2005 prices. With current world demand and the situation in the Middle East, there is little reason to expect oil prices to fall as much as they did after the 1980s price increases.

Figure 6b shows natural gas prices for the period FY 2000 to FY 2006. Prices for natural gas have continued to increase since FY 2002. Prices increased from $5.09 per MCF in FY 2005 to $6.64 per MCF in FY 2006, a 30 percent increase. Both worldwide and national reserves for natural gas from all sources are quite large. Increased prices for oil may make development of both coalbed methane

and natural gas reserves more economic, which will ultimately result in increased revenues from trust lands.

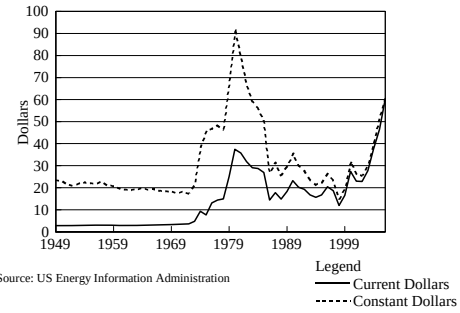
Figure 6b
Montana Department of Natural Resources and Conservation
Prices for Natural Gas Produced on State Trust Lands 2000 - 2006



Source: Montana Department of Natural Resources and Conservation

Figure 6c shows the price of crude oil from 1949 to 2005. From 1949 to the early '70s, the price was nearly constant in both current and constant dollars. Prices increased substantially in the early '80s with current dollar prices reaching nearly $40 and constant dollar prices over $90. After the high of the early '80s prices dropped below the peak but not back to pre 1980-levels. The current dollar price is over $60. However, to reach the same relative prices as those of the 1980s, current prices would have to be over $90 a barrel or 50% higher than current prices. This would translate to automobile fuel prices well over $4 a gallon. It also explains in part why the increase in prices has not brought about the dramatic changes in gas use seen with the crude oil price increase in the 1980s. Higher prices have induced increased production as discussed earlier; however, this increase has been limited due to the actions of the OPEC cartel. Indications from the cartel are that output will continue to be constrained, which will keep prices higher than if the market were to adjust freely.

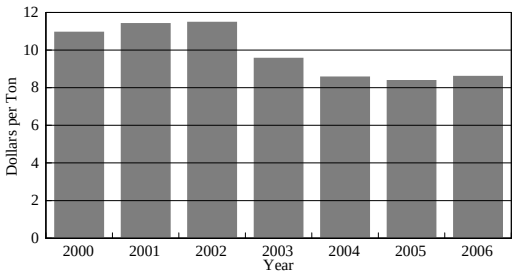
Figure 6c
Montana Department of Natural Resources and Conservation
Crude Oil prices - Current and Real Dollars



Source: US Energy Information Administration

- Coal

Figure 6d
Montana Department of Natural Resources and Conservation
Prices for Coal Produced on State Trust Lands 2000 - 2006

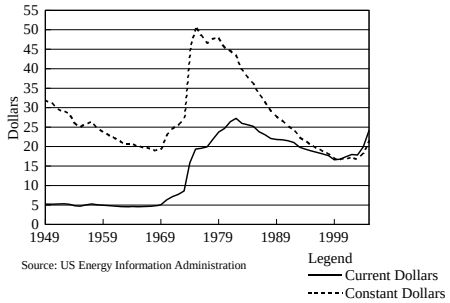


Source: Montana Department of Natural Resources and Conservation

Figure 6d illustrates the prices received for coal produced from state lands. State trust land prices increased slightly (2.6%) in FY 2006 whereas national prices increased by about 10%. Long-term forecasts are for stable or slightly increasing coal prices. With increasing costs of other energy alternatives, the price of coal could also increase over the long term.

Figure 6e shows long-term coal prices. Similar to the price of oil, coal prices increased dramatically in the '80s then decreased until 2002 when prices began to rise. Unlike oil however, the long-term real price of coal is declining slightly. In recent years, this has created declining profits for coal producers since real costs have continued to increase. Part of the reason for the decline is that the coal industry at the producer level is much more competitive with market prices generally set by supply and demand. If oil prices remain high, additional demand for coal as a substitute for petroleum and natural gas in some uses could improve prices for coal.

Figure 6e
Montana Department of Natural Resources and Conservation
Long term Coal prices

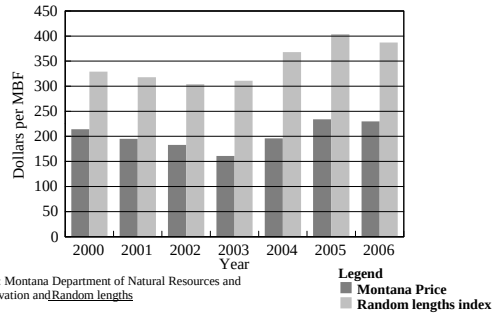


Source: US Energy Information Administration

-Timber

Figure 7 contrasts the *Random Lengths* composite lumber price index with the average stumpage price[1] the state has received for timber harvested on state trust lands from FY 2000-FY 2006. The *Random Lengths* index is a wholesale composite index price that reflects both national and regional lumber prices. Both the state stumpage prices and the random lengths prices had been declining. In FY 2004, prices increased strongly which continued into FY 2005. In FY 2006, the *Random Lengths* price declined as did the average stumpage price for timber sold by the bureau. The price decrease exhibited in the 2006 *Random Lengths* index reflects the current wholesale market. Decreases in the wholesale market are primarily a result of increased foreign timber imports and a slowdown in the new construction market. Effects of the resolution of the tariff against Canadian imports in favor of Canada have not been fully realized at this time.

Figure 7
Montana Deparment of Natural Resources and Conservation
Timber Stumpage Prices on Trust Lands



Source: Montana Department of Natural Resources and Conservation and Random lengths

[1] Does not include funds collected for the Forest Improvement Program.

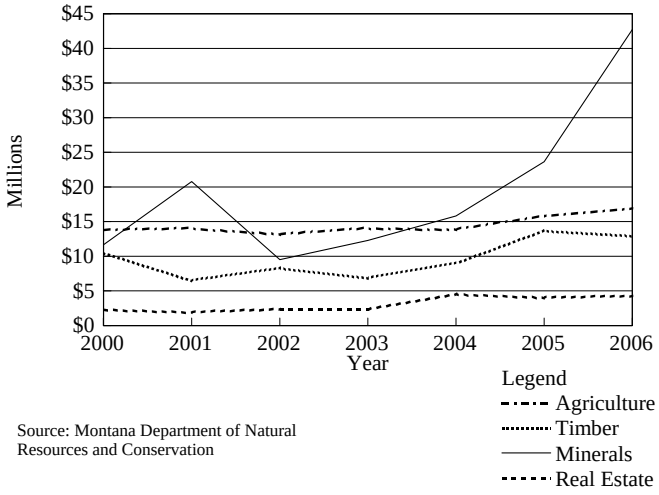
III. REVENUE, EXPENSE AND ASSET APPRECIATION

Total return includes both net revenue and appreciation. However, it does not necessarily represent the best income flow to the trusts. Appreciation in land values cannot be used to fund school expenditures, but is considered part of the total return on an asset. Increased land values contribute to the revenue of the trusts only after they are captured through sale or increased rental or lease rates. Passive and non market values and benefits affect trust land management activity levels, particularly classified timber lands. To a lesser extent, they affect other land classifications as well. They do not add to the income received for the trust land beneficiaries. This report includes only those activities that return a monetary value to the trusts and does not attempt to quantify non market values.

A. Revenue

Revenue-generating activities on trust lands includes timber sales, mineral sales and leases, agricultural sales and leases, and real estate sales and leases. Figure 8 shows contributions from each source for the last six years. On average, minerals generated the largest amount of revenue, followed in order by agriculture, timber, and real estate. Gross revenue from minerals increased substantially from FY 2003 to FY 2006; in FY 2006, minerals were by far the largest revenue producer. Revenue from agriculture was up reflecting both the increase in commodity prices and production. Timber production leveled as producers adjusted to the new allowable cut. Timber revenue declined slightly as a result of lower prices toward the end of the fiscal year. The increase in total gross trust real estate revenue is the result of adjustments to existing leases.

Figure 8
Trust Gross Revenue by Source
2000 - 2006



Source: Montana Department of Natural Resources and Conservation

Table 1 presents the information for the last five fiscal years in tabular form. These numbers are presented in the DNRC's Annual Report for each fiscal year[2] except that land sales, trust interest, and "other revenues" are not included. Land sales are shown separately in the table, but are excluded from

[2] Fiscal year will always mean "state fiscal year," i.e., July through June, and not "federal fiscal year."

the return on assets calculation because they represent an exchange of assets, money for land. Revenue includes a small amount of earnings for nontrust land such as Agricultural Experiment Station lands that DNRC manages, but these funds do not contribute to trust earnings. These small amounts are deducted from the analysis of the return on assets for the trusts, but are included in the first three tables for comparison and historical purposes. Land sale earnings are shown separately because they are part of bureau revenues but are excluded from the return on assets analysis because they are deposited directly into the trust permanent fund. Interest income and other revenues are excluded because they do not represent current earnings from trust resource management.

Table 1
Montana Department of Natural Resources and Conservation
Trust Gross Revenue by Source
FY 2002 – FY 2006

Source	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Ag. & Grazing	$13,279,949	$14,116,247	$13,887,202	$15,793,549	$16,852,496
Forest Mgmt.[3]	9,686,844	8,278,792	11,043,525	16,596,191	15,875,615
Minerals Mgmt.	9,501,254	12,282,648	15,810,987	23,641,848	42,716,187
Real Estate	2,302,658	2,367,469	4,528,203	4,121,170	4,210,017
Subtotal	$34,770,705	$37,045,156	$45,269,917	$60,152,758	$79,654,315
Land Sales	15,954	19,744	2,900	25,797	$0
Total	$34,786,659	$37,064,900	$45,272,817	$60,178,555	$79,654,315

Table 1 represents gross earnings by source; however, the return on assets should represent a net figure, i.e., earnings after expenses are deducted. Table 2 shows expenses for each program. Forest Improvement expenses are kept separate, since they represent funds retained to ensure continuation of long-term forest health and productivity and are considered a program investment.

Table 2
Montana Department of Natural Resources and Conservation
Expenses by Source
FY 2002 – FY 2006

Source	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Ag. & Grazing	$1,182,926	$1,043,273	$1,514,686	$1,636,259	$1,565,769
Forest Mgmt.	3,286,469	3,776,429	4,230,626	4,576,621	4,738,218
Minerals Mgmt.	756,104	971,912	641,074	670,227	966,483
Real Estate	1,205,447	1,161,081	1,102,429	1,320,287	1,331,879
Subtotal	$6,430,946	$6,952,695	$7,488,815	$8,203,394	$8,602,350
Forest Improvement	1,404,363	1,363,664	1,579,519	1,732,856	1,552,740
Total	$7,835,309	$8,316,359	$9,068,334	$9,936,250	$10,155,090

[3] Funds for the Forest Improvement program are included at the gross revenue level to show the relationship to the Annual Report; however, because they are not available for distribution to the trusts, they are subtracted in Table 2 and generally excluded from most other exhibits.

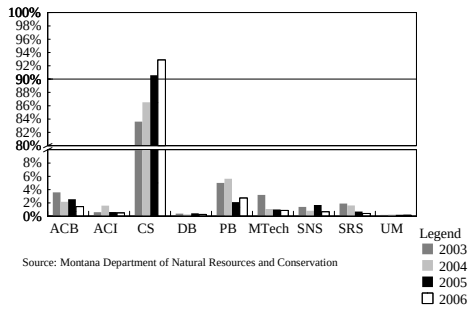
Table 3 shows net trust fund revenues available for FY 2002 to FY2006. Undistributed Forest Improvement funds for FY 2006, not shown in the table, totaled $1,322,537. (The retained Forest Improvement money is similar to retained earnings in a business where retained earnings are earmarked for future investment.)

Table 3
Montana Department of Natural Resources and Conservation
Trust Net Revenue by Source
FY 2002 – FY 2006

Source	FY 2002	FY 2003	FY 2004	FY 2005	FY2006
Ag. & Grazing	$12,097,023	$13,072,974	$12,372,517	$14,157,290	$15,286,727
Forest Mgmt.	4,996,012	3,138,699	4,783,274	9,075,011	8,262,120
Minerals Mgmt.	8,745,150	11,310,736	15,169,914	22,971,621	41,749,704
Real Estate	1,097,211	1,206,388	3,425,774	2,800,883	2,878,138
Total	$26,935,396	$28,728,797	$35,751,478	$49,004,805	$68,176,688

Figure 9 displays the distribution of revenue by each trust for FY 2003 through FY 2006. The Common Schools Trust receives over four times the revenue from trust land as all of the other trusts combined. In FY 2006, the share going to Common Schools continued to increased, while nearly all other trusts had small decreases. Public Buildings (PB) is the only institution other than Common Schools to show an increase in its share of the FY 2006 gross revenue.

Figure 9
Montana Department of Natural Resources and Conservation
Gross Revenue Distribution by Trust 2003-2006



Source: Montana Department of Natural Resources and Conservation

Estimated gross revenues by land office and trust are shown in Table 4. Remaining non trust revenues were deducted, as a result the table does not reflect any revenue for the Agricultural Experiment Station, Forest Improvement, Galen, General Fund, Montana Department of Transportation, or land sales.

Table 4 Montana Department of Natural Resources and Conservation Gross Trust Revenue by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$37	$0	$1	$533	$2	$519	$1,092
ACI	103	1	237	18	13	5	377
CS	8,471	21,906	22,743	7,256	6,421	3,290	70,088
DB	60	1	28	108	0	17	214
PB	332	7	81	1,275	7	366	2,069
M Tech	161	0	92	407	2	3	666
SNS	107	3	77	312	2	17	519
SRS	131	13	29	50	12	78	314
UNIV	44	29	24	0	3	2	102
Total	$9,446	$21,962	$23,314	$9,960	$6,462	$4,297	$75,441

In FY 2006, gross trust revenues increased by $18.5 million. Forest Management and Real Estate had decreased revenue in FY 2006. The largest increase was in the Minerals Management Bureau, where gross revenues increased by $19.0 million accounting for nearly all of the revenue increase. The Minerals Management Bureau increased revenues by 81 percent and the Agriculture and Grazing Bureau increased its revenues by 7 Percent.

B. Expenses

The Trust Land Management Division utilized a portion of trust receipts to cover the costs of managing trust lands. These costs reduce funds available for distribution. Table 5 shows these costs without FI, prorated on the basis of the Trust Land Division employee distribution and gross revenue to the trusts.

Table 5 Montana Department of Natural Resources and Conservation Trust Management Expenses by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$14	$0	$1	$101	$0	$70	$185
ACI	0	0	0	0	0	0	0
CS	956	633	1,235	3,144	328	1,365	7,662
DB	4	1	4	24	0	8	42
PB	111	2	38	234	6	90	481
M Tech	11	0	13	58	1	1	84
SNS	14	1	17	57	1	7	97
SRS	9	2	6	18	1	13	49
UNIV	1	0	0	0	1	1	4
Total	$1,118	$639	$1,314	$3,635	$340	$1,556	$8,602

C. Net Revenue

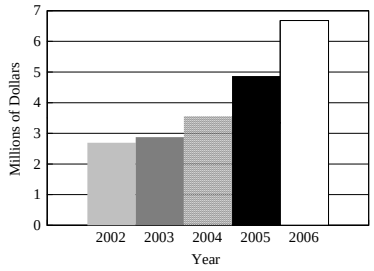
The amounts shown in Table 6 reflect the difference between the revenues collected and expenses for program administration. These are not the amounts distributed to the schools, but an estimate of net earnings by trust. Earnings are redistributed based on criteria associated with each grant.

Table 6
Montana Department of Natural Resources and Conservation
Net Trust Revenue by Land Office and Trust
FY 2006 (Thousands of Dollars)

	Land Office						
	CLO	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$24	$0	$1	$432	$1	$450	$907
ACI	103	1	237	18	13	5	377
CS	7,514	21,274	21,509	4,112	6,093	1,925	62,427
DB	55	1	24	84	0	8	172
PB	222	5	43	1,041	1	276	1,588
M Tech	151	0	80	349	1	2	583
SNS	93	2	61	255	1	10	422
SRS	123	11	23	32	11	65	265
UNIV	43	29	24	0	2	1	99
Total	$8,328	$21,323	$22,000	$6,325	$6,122	$2,741	$66,839

Figure 10 displays the net revenue for FY 2002 to FY 2006. Revenue was up from $48,693,000 in FY 2005 to $66,839,000 in FY 2006. This increase will later reflect on the rate of return on total assets.

Figure 10
Montana Department of Natural Resources and Conservation
Net Revenue FY 2002-2006



Source: Montana Department of Natural Resources and Conservation

D. Asset Value and Appreciation

Total asset value represents the sum of all asset values from each of the revenue-earning activities associated with trust lands. The detail of these estimates is found in the appendix. The following tables display results of the aggregation.

Table 7 Montana Department of Natural Resources and Conservation Surface Acres by Area Office and Trust FY 2006 (Thousands of Acres)							
	Land Office						
Total	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	9	0	0	12	0	10	31
ACI	38	0	15	3	4	3	63
CS	976	1,205	1,650	225	374	174	4,604
DB	23	2	4	9	0	1	38
PB	100	0	14	41	0	31	186
M Tech	26	0	19	11	0	4	59
SNS	31	1	18	10	0	4	63
SRS	47	1	11	1	3	5	68
UNIV	4	3	9	0	0	2	19
Total	1,253	1,211	1,739	313	382	234	5,132

Table 7 shows the total surface acreage by land office and trust. This information was used to prorate assets when they could not be directly allocated from revenue or other data. No adjustments were made to the acreage distribution table in FY 2006.

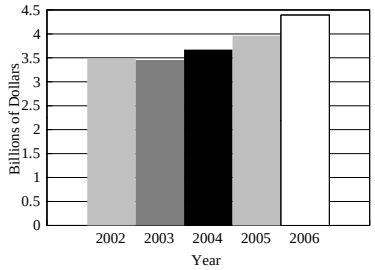
Table 8 shows acreage by land office and revenue-generating activity. The largest share of trust lands, both surface and subsurface (mineral), is in the Northeastern Land Office (NELO).

Table 8 Montana Department of Natural Resources and Conservation Classified Acres by Land Office and Bureau FY 2006 (Thousands of Acres)							
	Land Office						
Bureau	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
Agriculture	124	78	349	1	19	1	571
Grazing	1,083	1,134	1,388	14	361	81	4,060
Forest Mgmt.	31	0	1	297	0	151	479
Minerals Mgmt.	1,761	1,020	2,439	354	444	283	6,302
Real Estate	15	0	1	2	2	1	22
Total Surface	1,253	1,211	1,739	313	382	234	5,132

The asset value for the lands in each region by trust is shown in Table 9. This asset value is based on all sources and adjusted for possible use conflicts. The asset values for minerals have been added to the surface asset values, since there is little use conflict. Some mineral values occur where there is no surface ownership (4 to 6 percent on average). Mineral values are combined into the surface values in all tables.

Table 9 Montana Department of Natural Resources and Conservation Asset Value by Land Office and Trust FY 2006 Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$10,538	$0	$8	$18,390	$0	$16,269	$45,205
ACI	28,892	429	11,912	5,146	2,588	3,935	52,902
CS	735,757	1,013,164	1,346,783	325,111	268,738	188,452	3,878,005
DB	17,997	915	2,930	12,883	0	1,876	36,600
PB	78,619	442	9,307	60,091	0	43,507	191,966
M Tech	19,818	67	14,784	17,751	0	5,609	58,029
SNS	21,388	588	13,355	15,230	0	5,794	56,355
SRS	40,017	539	7,886	1,910	2,189	7,679	60,221
UNIV	2,746	2,541	7,903	457	340	2,662	16,649
Total	$955,772	$1,018,685	$1,414,868	$456,969	$273,854	$275,783	$4,395,931

Figure 11
Montana Department of Natural Resources and Conservation
Assets FY 2002-2006



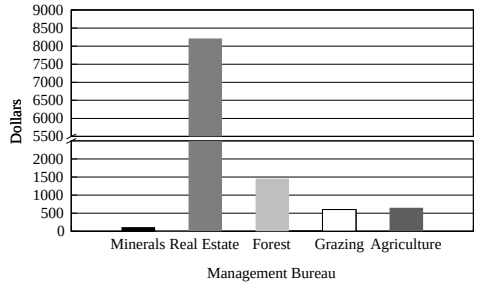
Source: Montana Department of Natural Resources and Conservation

In the case of minerals, a discounted reserve value based on current market conditions is used to establish the asset value since the mineral estate is largely subsurface and has few, if any, other marketable values. If reserve estimates for the mineral are not available, a capitalized value is used. Real Estate Management Bureau lands are primarily valued through appraisals that consider not only the specific use associated with the lease, but also other market valuations. Agricultural land valuations have been revised in 2006 and are based on information from sales and from expertise on land values both within and outside the division. Previously, agricultural land values were based on the "2000 Agricultural Lands Appraisal" prepared by the Montana Department of Revenue for assessing property tax on agricultural properties. The new estimates will be updated each year to reflect changes in the market for agricultural lands. Timber land values were also updated to reflect new information about the values of timber land gained from actual sales and acquisition combined with bureau expertise on land values. Timber appreciation for the legislatively mandated return assessment is based on the method identified in 77-1-225, MCA. Appreciation is distributed to each land office and trust based on a weighted average of the acreage in each "source."

Asset values continue to grow primarily because of the increase in resource prices and revenue and, for real estate, because of a high demand for recreational housing. In the case of agriculture, asset values increased because of an increase in production due to better growing conditions. Figure 11 compares assets for FY 2002 through FY 2006. With the increase in

resource prices, this year's asset value has increased by nearly 10 percent over FY 2005. This large increase is a result of the increased values for all resources as well as some effects from the improved valuation methods adopted in FY 2006.

Figure 12
Montana Department of Natural Resources and Conservation
Average Asset Value per Acre by Management Bureau



Source: Montana Department of Natural Resources and Conservation

Figure 12 displays the average asset value per acre by management bureau. The comparatively large asset value per acre for Real Estate ($8,218) is the result of the substantial proportion of the Real Estate acreage contained in the high value per acre commercial lots and in the cabin site program. The comparatively low value per acre for Minerals ($114) is a result of the large number of acres that have not been identified as containing commercial mineral values. Forestry, Agriculture and Grazing have per-acre values of $1,458, $650, and $600, respectively.

Total net revenue is from all sources: timber, minerals, real estate and agriculture. Revenue is allocated by trust and land office.

Table 10
Montana Department of Natural Resources and Conservation
Total Return by Land Office and Trust
FY 2006 (Thousands of Dollars)

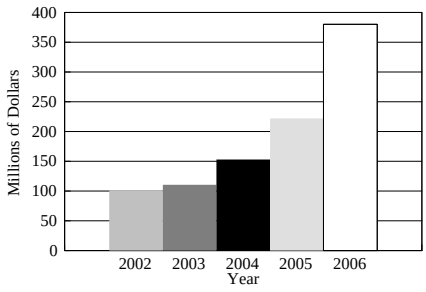
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$653	$0	$1	$1,174	$0	$1,120	$2,948
ACI	1,639	39	1,358	226	147	162	3,571
CS	47,551	106,597	148,554	17,197	19,315	9,484	348,698
DB	1,005	37	268	602	0	85	1,997
PB	4,226	70	583	3,453	0	2,018	10,351
M Tech	1,306	13	1,453	1,074	0	226	4,072
SNS	1,359	60	1,064	868	0	243	3,593
SRS	2,140	40	589	109	119	376	3,372
UNIV	234	271	833	18	22	107	1,485
Total	$60,113	$107,128	$154,703	$24,720	$19,603	$13,822	$380,088

The total return shown in Table 10 includes net revenue and an asset appreciation value when appropriate. In many cases, appreciation of the asset exceeds the direct earnings of the asset. Both values are summed up in the total return.

This year's total return is larger than last year's, reflecting higher prices and increased volumes sold for nearly all resources. This year's net revenue is over $18 million higher than last year's.

Figure 13 portrays the return on assets for FY 2002 - FY 2006. The return on assets is higher in FY 2006 because of the large increase in resource prices and the increased appreciation associated with higher valued resources.

Figure 13
Montana Department of Natural Resources and Conservation
Return on Assets 2002 - 2006



Source: Montana Department of Natural Resources and Conservaton

Table 11 shows the rate of return on assets for all trust lands. The total return statewide is 8.65 percent. Generally, areas with the highest mineral values have the highest rates of return. Unusually high rates of return often indicate a one-time occurrence or windfall. The overall distribution of assets tends to be more accurate than the detail distribution, which depends heavily on land ownership patterns.

Table 11
Montana Department of Natural Resources and Conservation
Rate of Return on Assets by Land Office and Trust
FY 2006

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	6.20%	0.00%	6.83%	6.39%	0.00%	6.89%	6.52%
ACI	5.67%	9.15%	11.40%	4.39%	5.68%	4.12%	6.75%
CS	6.46%	10.52%	11.03%	5.29%	7.19%	5.03%	8.99%
DB	5.58%	4.08%	9.15%	4.67%	0.00%	4.51%	5.46%
PB	5.38%	15.91%	6.26%	5.75%	0.00%	4.64%	5.39%
M Tech	6.59%	19.19%	9.83%	6.05%	0.00%	4.04%	7.02%
SNS	6.35%	10.19%	7.97%	5.70%	0.00%	4.19%	6.38%
SRS	5.35%	7.33%	7.47%	5.69%	5.44%	4.89%	5.60%
UNIV	8.52%	10.68%	10.54%	4.01%	6.42%	4.04%	8.92%
Total	6.29%	10.52%	10.93%	5.41%	7.16%	5.01%	8.65%

This year's rate of return on assets is 54 percent higher than last year's, primarily due to increased resource prices. Higher prices increased both the net revenue contribution to total assets and the estimated appreciation associated with those activities yielding higher returns, particularly minerals.

IV. SUMMARY

Table 12 shows the returns based on revenue and total asset values by revenue source. A large part of the return is from appreciation and not net revenue. The rate of return from revenue is 1.52 percent of the asset value. This is higher than last year's return from revenue of 1.23 percent. The overall rate of return on assets is 8.7 percent, reflecting the additional values from land appreciation as well as the increase in net revenue. This year's rate of return is greater than 3 percent higher than last year's return of 5.6 percent. The overall rate of return is up by 55 percent over last year, reflecting the much higher resource prices in FY 2006.

Table 12
Montana Department of Natural Resources and Conservation
Trust Returns by Net Revenue and Total Return[4]
FY 2006 (Thousands of Dollars)

Source	Net Revenue	% of Assets	Appreciation	% of Assets	Total Return	% of Assets
Agriculture	$9,468	0.32%	$185,606*	6.29%	$232,047*	7.87%
Grazing	5,804	1.29%	61,869*	13.78%	65,449*	14.58%
Forest Mgmt	8,262	1.18%	28,321*	4.04%	36,591*	5.19%
Mineral Mgmt	41,524	5.81%	164,793	23.07%	206,316	28.9%
Real Estate	1,781	1.01%	8,416*	4.78%	10,264*	5.83%
Total	$66,839	1.52%	$214,212**	6.65%	$380,088	8.7%

*Includes minerals and/or other bureau returns

** To avoid double counting, the total includes Ag. & Grazing, Forest, and Real Estate values only.

Table 13
Montana Department of Natural Resources and Conservation
FY 2006 Income Statement by WSLCA Asset Classification

Asset Class	Gross Revenue	Expense	Net Income	Asset Value	Return
Agriculture Dryland	$9,449,610	$384,166	$9,065,444	$344,790,919	2.63%
Agriculture Irrigated	410,111	7,277	402,834	26,177,500	1.54%
Grazing	6,978,116	1,174,327	5,803,789	2,436,231,003	1.29%
Forest Lands	13,000,338	4,738,217	8,262,120	699,096,968	1.18%
Real Estate					
- Commercial	554,338	235,576	318,765	10,998,770	2.09%
- Residential	1,154,427	490,590	663,837	23,408,780	2.84%
Total Real Estate	4,183,619	1,331,880	2,851,739	175,188,352	N/A
Oil and Gas	37,813,235	860,103	36,953,132	618,299,012	5.98%
Coal	4,221,027	96,012	4,125,015	89,068,905	4.63%
Other Minerals	455,852	10,369	445,483	7,078,447	6.29%
Rights-of-Way	1,049,516	539,629	509,886	N/A	N/A
Total	$75,462,392	$8,602,351	$66,839,041	$4,395,994,106	1.52%

[4] Trust resources are not managed in the same manner as privately held resources. In addition to providing revenue, other social and political issues are considered in most economic decisions associated with managing trust assets. Consequently, evaluating trust performance solely on the basis of the rate of return without considering all of the goals and objectives of trust asset management could lead to inaccurate conclusions about the "financial" management of trust assets. (Agland Investment Services, Inc. 2000. *A Report to the Western States Land Commissioners Association: Trust Performance Measures.* Larkspur, CA www.aglandinvest.com)

Return on Asset Value by Trust and Land Office for Classified Forest Lands
(77-1-223 – 225, MCA)
FY 2006

This section fulfills the requirements of 77-1-223 – 225, MCA that each year the State Board of Land Commissioners will provide a report based on a specific methodology identifying the average return on revenue to trust beneficiaries from Classified Forest Lands identified as class 2 trust lands[5] in 77-4-401, MCA. The report must include for each beneficiary:

1. The total acreage of forest lands held in trust;
2. A summary of the asset value for the forested lands held in trust;
3. A calculation of the average return from revenue on the asset value for the forested tracts held in trust; and
4. A listing by each DNRC land office of the total forested acreage administered for the trust beneficiary and a calculation for the average return from revenue on asset value for lands designated to the trust beneficiary.

Classified Forest Lands

The amount and distribution of Classified Forest Lands used for this section of the report differs from those shown in Table A -1 in the Appendix because it includes only "classified forest land." Production of timber from lands not classified as forest land is not included in this report; consequently, no revenue earned from timber in the SLO or ELO is included in this section of the report. The acres identified in this section of the report are identical to acres in FY 2004 and FY 2005 reports.

Table FOR – 1
Montana Department of Natural Resources and Conservation
Total Net Classified Forest Land Acres by Trust and Land Office

	Land Office				
Trust	**CLO**	**NELO**	**NWLO**	**SWLO**	**Total**
ACB	509		11,818	7,944	20,271
ACI			3,354	2,069	5,423
CS	9,511	19	192,784	79,002	281,316
DB	502		8,309	400	9,211
PB	2,371		38,575	26,366	67,312
M Tech	1,120		9,818	2,556	13,494
SNS	540		9,366	3,506	13,412
SRS	7,299		1,626	4,488	13,413
UNIV			155	322	477
Total	21,852	19	275,805	126,654	424,329

A comparison of the Classified Forest Lands and all trust lands is given in Table FOR - 2. The land distribution by trust on "classified forests" differs considerably from the distribution of land on all trust lands. This is true for the state in total and for the individual land offices. For

[5] The methodology used in this section of the report is consistent with the methodology used in previous reports except for a realignment of areas for some of the basic analysis but still in conformance with 77-1-223 – 225, MCA. For detailed methodology, refer to the 2000 "Return on Assets Report."

example, the Common School Trust accounts for about 90 percent of the total trust lands in the state, but only accounts for 66 percent of the Classified Forest Lands and less than 44 percent of the Classified Forest Lands in the Central Land Office (CLO). Public Buildings constitute 3.6 percent of all trust land but accounts for nearly 16 percent of Classified Forest Trust Lands. The result of these differences is that contributions to revenue from Classified Forest Lands are likely to differ proportionally from revenue contributions from all trust land.

Table FOR – 2
Montana Department of Natural Resources and Conservation
A Comparison of Land Distribution Between Trusts
on Classified Forest Lands and All Trust Lands

	CLO		NWLO		SWLO		Total	
Trust	**% of CLO CF***	**% of All Trust land**	**% of NWLO CF***	**% of All Trust land**	**% of SWLO CF***	**% of All Trust land**	**% of All CF***	**% of All Trust land**
ACB	2.3%	0.8%	4.3%	3.8%	6.3%	4.3%	4.8%	0.6%
ACI		3.3%	1.2%	1.0%	1.6%	1.3%	1.3%	1.2%
CS	43.5%	76.3%	69.9%	71.8%	62.4%	74.7%	66.3%	89.8%
DB	2.3%	2.0%	3.0%	2.9%	0.3%	0.4%	2.2%	0.7%
PB	10.9%	8.6%	14.0%	13.1%	20.8%	12.9%	15.9%	3.6%
M Tech	5.1%	2.1%	3.6%	3.5%	2.0%	1.7%	3.2%	1.1%
SRS	2.5%	2.7%	3.4%	3.2%	2.8%	1.7%	3.2%	1.2%
SNS	33.4%	4.0%	0.6%	0.3%	3.5%	2.1%	3.2%	1.3%
UNIV		0.3%	0.1%		0.3%	0.9%	0.1%	0.4%

* Classified Forest

The asset value for Classified Forest Land is given in Table FOR - 3. These estimates of asset value were derived using procedures identified in Title 15, Chapter 44, Part 1.

Table FOR – 3
Montana Department of Natural Resources and Conservation
Average Total Asset Value by Land Office and Trust
Net Classified Forest Lands Only
(2000 Dollars)

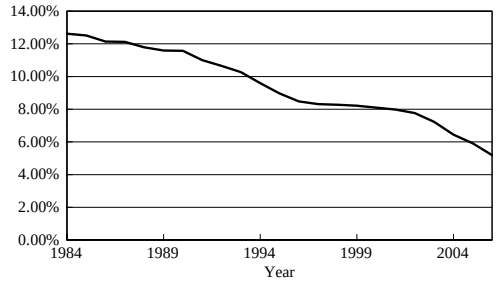
	Land Office			
Trust	**CLO**	**NWLO**	**SWLO**	**Total**
ACB	$197,168	$9,739,573	$4,634,917	$14,571,658
ACI	0	2,666,274	868,825	3,535,099
CS	4,077,028	168,997,247	43,804,053	216,878,328
DB	335,091	7,002,293	214,050	7,551,434
PB	1,311,688	30,523,733	14,780,572	46,615,993
M Tech	612,705	8,148,382	1,406,219	10,167,306
SNS	278,555	7,820,590	1,943,927	10,043,072
SRS	2,976,265	1,497,187	2,829,800	7,303,252
UNIV	88,757	118,074	157,872	364,704
Total	$11,002,698	$236,513,354	$70,640,235	$318,156,287

Asset values increased by nearly $26 million (8 percent) between FY 2005 and FY 2006. The relative distribution of asset value changed little from the previous year, primarily because the averaging of values limits the impact of changes from any single year. The increase was focused on the Common School Trust. Because it is the largest trust in absolute terms, the Common Schools Trust usually gains and loses value when the asset values change. The reason for

the increase in trust asset value is related primarily to the increase in stumpage prices and partially to the decreasing interest rate.

Figure FOR - 1 shows, by calendar year, the average interest rate charged by the Spokane Farm Credit Bank since 1984. This interest rate, the rate required by law to be used in this report, is the prime component of the capitalization rate used to compute the asset values shown in Table FOR-3. Average tax rates are also used in computing the discount rate, but the tax rate adds less than 1 percent to the interest rates. However, as interest rates continue to fall, the average tax rate assumes more importance in the total discount rate calculation. The rate of interest has declined in recent years, but, the expectation is that this trend could reverse itself in the next few years. Increases in the "discount rate" by the Federal Reserve Bank in the last year have had a small impact on interest rate declines in general. If the impact grows or other factors act to increase rates, then the effect of the declining interest rates in maintaining the established asset values for forest lands will be diminished.

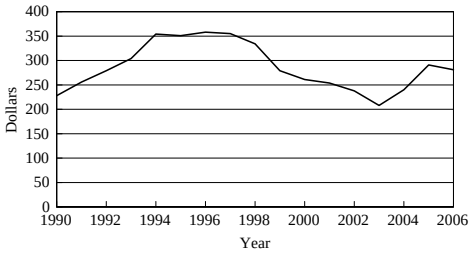
Figure FOR - 1
Farm Credit Bank Interest Rates



Source: Montana Department of Natural Resources and Conservation, Trust Land Management Division and the Spokane Farm Credit Bank District

Figure FOR - 2 shows the trend in stumpage fees. The stumpage rate increased in FY 2004 and continued into FY 2005; however, stumpage decreased in FY 2006. A slowing in the housing construction market as well as increased imports have combined to reduce stumpage. If FY 2007 prices are to remain at current levels, house construction must increase, Canada must show some restraint in timber exports to the United States, and overseas demand for timber needs to remain strong.

Figure FOR - 2
Classified Forest Stumpage
Plus Forest Improvement Fees



Source: Montana Department of Natural Resources and Conservation, Trust Lands Management Division

Appreciation is determined by the difference between the constant dollar average asset value for trust lands in the current year and the constant dollar average asset value for Classified Forest Lands 10 years ago. The comparatively high price received during the early- to mid-1990s and price inflation adjustments to maintain constant dollar comparisons have limited the 10-year asset value difference in recent years. This year's declining stumpage value and declining interest rates have increased the average asset values estimated for the second ten-year period. In FY 2005, this interest rate and substantial stumpage price increase resulted in an increase in appreciation for the fiscal year. In FY 2006 stumpage prices decreased as did the interest rate. This resulted in an overall increase in asset value for the trusts, however, on a regional basis the appreciation value was negative for some trusts in the Central Land Office. Thehe overall value for appreciation in this land office was positive. These effects show up in table FOR – 6.

The ten-year average gross revenue from commodity sales is shown in Table FOR - 4. The average is based on 10 years of revenue through FY 2006 adjusted to 2000 dollars using the GDP price deflators published by the Bureau of Economic Analysis.

Table FOR – 4
Montana Department of Natural Resources and Conservation
Annual Average Gross Revenue
From Commodity Sales
(2000 Dollars)

	Land Office			
Trust	**CLO**	**NWLO**	**SWLO**	**Total**
ACB	$2,555	$261,264	$264,295	$528,114
ACI	2	63,220	65,598	128,821
CS	350,602	3,225,369	1,616,692	5,192,663
DB	234	147,157	2,719	150,110
PB	4,377	545,228	555,464	1,105,069
M Tech	498	151,137	51,953	203,587
SNS	511	152,564	172,617	325,693
SRS	41,113	26,470	103,699	171,282
UNIV	0	5,184	5,550	10,734
Total	$399,898	$4,577,594	$2,838,586	$7,816,078

Average annual gross revenue increased by about $650,000 (8 percent) from last year's level. This is the result of losing the relatively low income from an earlier year and replacing it with higher real income in the current year. The gross revenue will vary year to year depending on the relative size of the income earned in the current year compared to the inflation-adjusted income in the first year. This year's results were substantial even with the decreased stumpage rates of FY 2006. Average Gross stumpage revenue for FY 2006 was 1.7 percent lower than the average gross stumpage revenue for FY 2005. If stumpage rates continue to decline at this low rate, gross revenue should continue to increase for the next few years, depending on interest rates.

Table FOR – 5
Montana Department of Natural Resources and Conservation
Ten Year Average Annual Net Revenue
From Commodity Sales
(2000 Dollars)

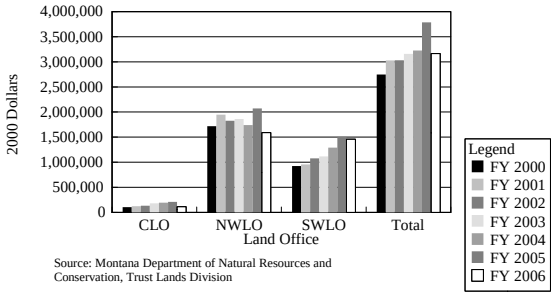
	Land Office			
Trust	**CLO**	**NWLO**	**SWLO**	**Total**
ACB	$1,006	$142,160	$185,671	$328,837
ACI	0	32,696	47,938	80,634
CS	92,761	1,068,417	692,559	1,853,736
DB	230	67,261	976	68,467
PB	1,964	158,758	308,299	469,020
M Tech	482	49,972	20,326	70,781
SNS	359	55,656	140,356	196,371
SRS	15,818	12,840	62,243	90,900
UNIV	$0	$2,679	$2,003	4,682
Total	$112,619	$1,590,438	$1,460,370	$3,163,428

Net revenue reflects the difference between gross revenue and the state's expense of producing the various commodities available on Classified Forest Land. Unlike last year, the ten-year average net revenue decreased by over $600,000 in FY 2006 (slightly more than 17 percent).

Ten-year average net revenues were declined and gross revenues increased. This implies that the average cost of producing the commodities has increased faster than the increase in gross revenue.

Figure FOR - 3 shows a graphic comparison of ten-year average net revenue for the last five years and demonstrates that the combined total across all regions has decreased this year and that the decrease is reflected in all land offices. The CLO's net revenue decreased by 46 percent, compared to last year's increase of 7 percent and the largest decrease of all land offices. The Northwest Land Office's net revenue decreased by 23 percent compared to last years 19 percent increase This reflects a strong turnaround from last year, when net revenues increased. The Southwestern Land Office's net revenue decreased by 3 percent compared to last years increase of 16 percent. The decrease for all land offices for FY 2006 was 16 percent. This is a substantial decrease from FY 2005 which had a growth rate of 17 percent.

Figure FOR - 3
Ten-Year Average Annual Net Revenue from Commodity Sales
FY 2000 to FY 2005



Source: Montana Department of Natural Resources and Conservation, Trust Lands Division

The total return on assets for FY 2006 is down compared to FY 2005. The decrease in both revenue and appreciation were the result of decreased prices for last year and the increase in real prices that occurred 10 years ago. The continued decline in interest rates was not sufficient to offset both the recent price decreases and the relative increase in the past. The price decrease is shown in Figure FOR - 2.

Table FOR - 6 shows the total return to assets for FY 2006. All trusts showed a decrease in total return on assets compared to FY 2005. The Northwest Land Office had the largest decrease in the total return on assets, followed by the Central and Southwestern Land Offices, both of which showed a decrease in the total return on assets.

Table FOR – 6
Montana Department of Natural Resources and Conservation
Average Annual Return on Total Assets
By Land Office and Trust
(2000 Dollars)

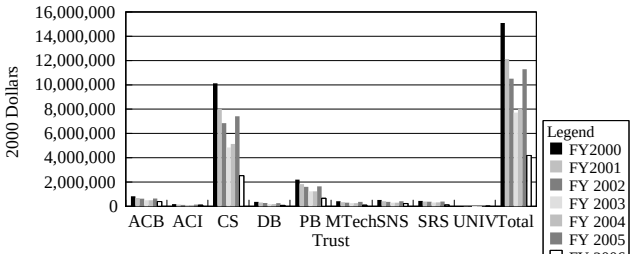
	Land Office			
Trust	**CLO**	**NWLO**	**SWLO**	**Total**
ACB	$203	$153,374	$236,004	$389,581
ACI	2	35,766	59,770	95,538
CS	76,155	1,263,007	1,182,539	2,521,701
DB	-1,135	75,323	3,440	77,629
PB	-3,379	193,904	471,880	662,405
M Tech	-2,013	59,355	36,210	93,551
SNS	-776	64,661	162,167	226,052
SRS	3,695	14,564	91,058	109,317
UNIV	-362	2,815	3,918	6,372
Total	$72,390	$1,862,769	$2,246,987	$4,182,146

The total loss in return to assets from FY 2005 was $7 million, or a decline of 63 percent. This compares to last year's increase of $3.2 million, or 40 percent. The year's large loss in asset value is almost entirely due to declining appreciation. Last year's gain was primarily the result of increased

appreciation. The Common School Trust had the largest loss from last year. This year was also unique in that some trusts in the CLO lost value or experienced depreciation although the total for all trusts showed $72,390 in appreciation. In terms of net income to the trusts, trusts showing losses have always had gains in terms of earned income as reflected in Table FOR – 5.

From Figure FOR - 4 it is easy to see that the average return decreased in FY 2006 and the gains made as a result of higher prices have been lost. Stumpage rates will need to return to previous highs if the gains obtained in FY 2000 are to be realized again. This year's large losses, however, reduced the return at a rate faster than anticipated. Part of this is due to the large loss in appreciation that resulted from the high real prices occurring in the mid 1990's.

Figure FOR - 4
Annual Return to Total Assets by Trust
FY 2000 to FY 2006



Montana Department of Natural Resources and Conservation,
Trust Lands Division

The rate of return on assets by land office and by trust for FY 2006 is shown in Table FOR - 7. The overall rate of return is down 2.6 percent from last year due to the combined decreases in net revenue and appreciation. The decrease in stumpage combined with the increase in real stumpage value in the mid 1990's was large enough to significantly impact on the rate of return on assets. If prices continue to decrease, the average rate of return will continue to show decreases in the near term and increase thereafter since prices in the period 1996 to 2003 are continuously declining. All of the individual trusts showed a decrease in the rate of return over FY 2005 levels.

Table FOR – 7
Montana Department of Natural Resources and Conservation
Average Rate of Return on State Classified Forests
(2000 Dollars)

	Land Office			
Trust	**CLO**	**NWLO**	**SWLO**	**Total**
ACB	0.1%	1.6%	5.1%	2.7%
ACI	0.0%	1.3%	6.9%	2.7%
CS	1.9%	0.7%	2.7%	1.2%
DB	-0.3%	1.1%	1.6%	1.0%
PB	-0.3%	0.6%	3.2%	1.4%
M Tech	-0.3%	0.7%	2.6%	0.9%
SNS	-0.3%	0.8%	8.3%	2.3%
SRS	0.1%	1.0%	3.2%	1.5%
UNIV	-0.4%	2.4%	2.5%	1.7%
Total	0.7%	0.8%	3.2%	1.3%

All offices showed an decrease in the rate of return for FY 2006. The largest proportional decrease was in the Central Land Office where the decrease went from 7.8 percent in FY 2005 to 0.7 percent in FY 2006, a decrease of nearly 90 percent.

Summary

The estimated return on assets decreased in FY 2006, reflecting stumpage price decreases in FY 2006. The decrease in stumpage prices was sufficient to reduce rates to level earned in FY 2002 – FY 2004. Commodity sales net revenues dropped substantially compared to last year.

Table FOR - 8 shows a comparison of the percentage of acreage owned by and net revenue earned by each trust. The acreage and earnings are generally comparable; however, the distribution of earnings has changed somewhat since last year. The Common Schools Trust is lower than last year and Public Buildings is again proportionally lower than in FY 2005. This has allowed trusts such as the MSU trusts and State Normal School trusts to obtain a larger share commensurate with their trust acreage. The University of Montana Trust fell to a point nearer its share of forest acres.

Table FOR – 8
Montana Department of Natural Resources and Conservation
Percentage of Net Revenue Earned and Net Acreage by Trust

	Net Acres	Net Revenue
Trust	**% of total**	**% of total**
ACB	4.78%	10.39%
ACI	1.28%	2.59%
CS	66.30%	58.60%
DB	2.17%	2.16%
PB	15.86%	14.83%
M Tech	3.18%	2.24%
SNS	3.16%	6.21%
SRS	3.16%	2.87%
UNIV	0.11%	0.15%
Total	100.00%	100.00%

As indicated last year, the return in the long run should be fairly proportional to the acreage, although this could vary somewhat year to year due to differences in resource endowments.

The asset values derived from this methodology do not represent the market value of Montana's Classified Forest Lands; they are a capitalization of a limited number of resource values into a land valuation. However, in a market situation, other values could make the market value of the land either higher or lower than estimates derived in this analysis. Other considerations not included are access, scenic values, and intense agricultural use, to name a few. In addition, other areas may contain non market values difficult to quantify and capitalize into the land value. Thus, this analysis does not necessarily represent the market value of the land. It does, however, represent a reasonable estimate of the value and return based on current market uses.

Appendix

This Appendix contains the analysis of each resource bureau's revenue-generating activity on state trust lands. The analysis of each bureau's activity is independent of the other bureaus, but many of the analytical methods used are similar. Improved information availablilty has improved the accuracy of many of the available acreage numbers. Changes resulting from improved numbers have been adjusted to minimize their impact. When changes are large, tables and figures will be utilized to show the effect of the improved land information. Revision of land data is an ongoing process, so changes will continue year to year; however, future changes should be smaller than those occurring in the current year.

The table below indicates the basic method used in analyzing returns to the trusts generated by each bureau.

Montana Department of Natural Resources and Conservation
Methods Used to Value Resources by Bureau
FY 2006

Bureau	Method of Analysis	Comments
Agriculture and Grazing	Land valuation	Adjusted for local sales expertise
Forest Management	Land valuation	Adjusted for regional values and local sales expertise
Minerals Management	Discounted reserve valuation and capitalization	Distributed on acreage and Revenue
Real Estate	Adjusted appraisals capitalization	Distributed on acreage

The asset value is based on individual year information rather than multi-year averages. This results in more volatile outcomes, but the information reflects the most current return on asset information available. As shown in the table above, the approach to asset valuation has been somewhat pragmatic and is generally determined by the information available. If available, direct appraisal information is always used. Discounted values of a resource are used if a reasonable estimate of the future value of the resource was available. Capitalization was used as the last choice because of the circular nature of the method and the difficulty in identifying an appropriate capitalization rate.

Not all trusts in each land office earn revenue each year. Each of the individual trust revenue sources is analyzed independently of other trust revenue sources. This results in some of the trusts showing no return on assets by a particular bureau from its trust lands in some land offices. An bureau may have earnings from other sources that are not part of its classification. For example, Real Estate may have earnings from classified forests. For this reason, information in the main body of the report provides the most comprehensive information on trust returns.

A. CLASSIFIED TIMBER LANDS

One method used to determine the return on assets on Classified Forest Lands is prescribed in Montana law (77-1-223 and 77-1-224, MCA). This analysis is included as the last section of the main report. A second method, developed in this section of the Appendix, is consistent with the approach used in analyzing the return on assets for other trust land resources. To maintain consistency, information derived from the second approach is used in the overall analysis of the return on assets for all trust lands.

Table A-1 shows the net classified forest acres by land office and by trust. These numbers have not changed significantly in recent years. Because trust land management is a dynamic process, reclassifications are likely to occur which could make future Classified Forest Lands differ from the ones in Table A-1.

Table A – 1
Montana Department of Natural Resources and Conservation
Classified Forest Acres by Land Office and Trust
FY 2006

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	800	0	0	12,187	0	9,073	22,060
ACI	0	0	0	3,375	0	2,137	5,512
CS	13,402	0	642	209,376	0	95,331	318,751
DB	640	0	0	8,583	0	1,176	10,399
PB	2,564	0	0	40,591	0	29,029	72,184
M Tech	1,267	0	0	10,676	0	3,827	15,770
SNS	585	0	0	10,154	0	3,873	14,613
SRS	11,770	0	0	1,309	0	4,928	18,007
Univ	0	0	0	277	0	1,760	2,037
Total	31,028	0	642	296,527	0	151,135	479,332

Table A-2 shows the asset value by land office and trust on Classified Forest lands. The method of computing asset values on Classified Forest Lands was revised this year. Instead of using a capitalization approach, the revised method incorporated state and local market information from the sale of forest lands and the expertise of appraisers and land managers who have current knowledge about the sale and price of forest land.

Forested state trust lands were grouped into four categories or classes by land office using the spatial analysis model originally developed in the Real Estate EIS. This process grouped lands based on proximity to growth centers, access, infrastructure, and other factors. An average land value for each category by land office was determined based on actual forest land sale information and the expertise of local land managers and the department's appraiser. These

regionalized values were then multiplied by the acres in each category within each land office to determine the total asset value by trust and land office.

The average value was much higher than in previous years because many "intrinsic" and non timber values were captured through this process. In addition, other assets such as minerals are included as part of the asset value of Classified Forest Land. Mineral assets are prorated on the basis estimated (assets) and actual (revenue) mineral values on forest lands. Particularly important to the forest land valuation is the recognition of recreational values which received limited recognition in the capitalization method used previously.

The estimates of asset value from minerals are based on different techniques that are discussed under the minerals section. Use of current-year estimates rather than a multi-year average will cause more volatile changes in the asset value year to year, but will provide a more current estimate of asset value. The average asset value per acre is $1,462.

Table A – 2
Montana Department of Natural Resources and Conservation
Classified Forest Land Asset Value by Land Office and Trust
FY2006 (Thousands of Dollars)

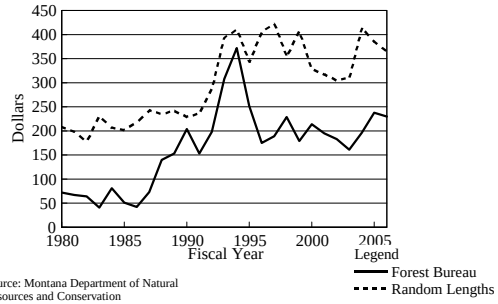
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$1,194	$0	$0	$17,784	$0	$13,238	$32,216
ACI	0	0	0	4,925	0	3,118	8,044
CS	20,012	0	1,293	305,518	0	139,092	465,915
DB	958	0	0	12,524	0	1,716	15,198
PB	3,814	0	0	59,230	0	42,356	105,400
M Tech	1,898	0	0	15,577	0	5,584	23,060
SNS	876	0	0	14,817	0	5,652	21,345
SRS	17,600	0	0	1,909	0	7,188	26,698
UNIV	0	0	0	404	0	2,567	2,971
Total	$46,352	$0	$1,293	$432,688	$0	$220,513	$700,846

FY 2006 asset values have nearly doubled the FY 2005 level of $358 million. The method used to estimate the asset value, which recognizes more fully the total value of the land, is the primary reason for the increase. During this period, stumpage prices declined slightly and harvest rates were slightly lower than last year, although changes were modest.

Table A – 3 Montana Department of Natural Resources and Conservation Net Return on Assets on Classified Forest Lands by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$66	$0	$0	$1,136	$0	$621	$1,823
ACI	0	0	0	198	0	125	323
CS	1,084	0	204	16,222	0	7,284	24,794
DB	44	0	0	569	0	70	683
PB	172	0	0	3,409	0	1,953	5,534
M Tech	87	0	0	652	0	223	963
SNS	40	0	0	837	0	234	1,111
SRS	838	0	0	109	0	293	1,240
UNIV	0	0	0	16	0	103	119
Total	$2,332	$0	$204	$23,148	$0	$10,907	$36,591

Table A-3 shows the net return on assets on Classified Forest Lands for FY 2006. Net return includes all of the net revenue available for allocation to the trust from timber sales, appreciation, and net revenue from minerals earned on Classified Forest Lands. Net revenue equals gross revenue less Forest Improvement revenue and operating costs on classified forests plus net revenues from mineral activities on Classified Forest Lands.

Figure A - 1
Montana Deparment of Natural Resources and Conservation
Wood prices 1980 - 2006



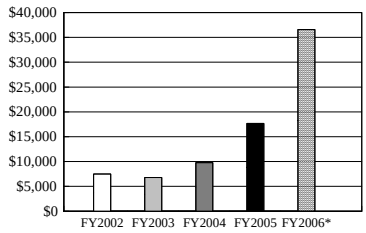
Source: Montana Department of Natural Resources and Conservation

The return on assets has increased this year primarily due to the higher appreciation of forest lands. Figure A-1 shows the prices received on forest product sales for the last 25 years. (FI charges are not included in the stumpage prices.) The average price for stumpage went from $238/mbf (thousand board feet) in FY 2005 to $230/mbf in FY 2006. This was the result of declining markets across the United States as reflected in the Random Lengths price index. Softening of the housing market was the single largest factor influencing prices; however, the Montana prices appear less impacted than overall market prices. One of the reasons cited for this smaller impact is a local shortage of logs needed to keep Montana mills supplied.

Earnings from minerals are included in Table A-3. These additional earnings are based on average earning per acre by trust and land offices from mineral resources. These earnings are prorated to the various trusts based on the amount of land owned by the trust within a particular land office boundary. The “return” includes land appreciation. This analysis will result in some areas showing a return when no economic activity has occurred because of the appreciation of the

land asset. In FY 2006, the return on assets increased primarily due to the appreciated value of the assets. As indicated earlier, the value of the assets nearly doubled because of the improved method of estimating the land value. Land appreciation was added to the net revenue which was lower for forest products this year.

Figure A - 2
Montana Department of Natural Resources and Conservation
Return on Assets from Forested Lands FY 2002 - FY 2006
(Thousands of Dollars)



*Based on a revised method for estimating asset and appreciation value

Source: Montana Department of Natural Resources and Conservation

Figure A-2 shows a comparison of the estimated return on assets from forested lands for FY 2002 through FY 2006. FY 2003 was 9.4 percent lower than FY 2002. However, increased resource prices made the FY 2004 return on assets 44 percent higher than FY 2003. FY 2005 was 80 percent more than the FY 2004 return on assets and FY 2006 was over twice the return in FY 2005.

Table A-4 shows the rate of return on assets on Classified Forest Lands. This rate includes appreciation and earnings from minerals added to the return from timber harvests.

Table A – 4
Montana Department of Natural Resources and Conservation
Net Rate of Return on Classified Forest Land by Land Office and Trust
FY 2006

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	5.5%	0.0%	0.0%	6.4%	0.0%	4.7%	5.7%
ACI	0.0%	0.0%	0.0%	4.0%	0.0%	4.0%	4.0%
CS	5.4%	0.0%	15.8%	5.3%	0.0%	5.2%	5.3%
DB	4.6%	0.0%	0.0%	4.5%	0.0%	4.1%	4.5%
PB	4.5%	0.0%	0.0%	5.8%	0.0%	4.6%	5.3%
M Tech	4.6%	0.0%	0.0%	4.2%	0.0%	4.0%	4.2%
SNS	4.6%	0.0%	0.0%	5.6%	0.0%	4.1%	5.2%
SRS	4.8%	0.0%	0.0%	5.7%	0.0%	4.1%	4.6%
UNIV	0.0%	0.0%	0.0%	4.0%	0.0%	4.0%	4.0%
Total	5.0%	0.0%	15.8%	5.3%	0.0%	4.9%	5.2%

Rates of return vary substantially between regions and trusts depending on earnings appreciation and the contribution of nonclassified forest producers to earnings. Some areas with no timber activities show earnings from other sources and some from land appreciation. These rates of return will vary substantially year to year, depending on the economic activity in each trust and land office. The asset value will also vary year to year depending on the real interest rate and current year activity on the forests. The average rate of return on asset value this year was 5.2 percent, up from last year's rate of return of 4.9 percent. This represents an increase of slightly more than 6 percent. The rate of return on revenue was 1.2 percent compared to 2.54 percent last year.

Revenue Cost Ratio for FY 2006

Table R/C - 1 shows the FY 2006 annual summary of revenue and costs for the Forest Management Program. This year's report continues the methodology developed in FY 2004. It is based on information used to prepare the Return on Assets Report rather than using an alternative methodology developed when the return on assets information was not available.

The overall revenue-cost ratio decreased to 2.3 in FY 2006 compared to 2.44 in FY 2005. The decrease in revenue is due to a slight drop in both harvest levels and stumpage value. Gross stumpage revenue in FY 2006 decreased by about $650,000 and FI revenue by about $150,000, for a total decrease in revenue of $800,000. The SWLO had the largest decline in revenue of nearly $150,000.

Table R/C – 1
Montana Department of Natural Resources and Conservation
Revenue-Cost Ratios by Land Office
Forest Management Bureau
FY 2006

Land Office	Gross Revenue	FI Revenue*	Total Revenue	Total Expense	Revenue/cost
CLO	$484,902	$21,262	$506,163	$316,794	1.60
ELO	60,317	0	60,317	35,288	1.71
NELO	180,753	568	181,321	62,321	2.91
NWLO	8,855,165	1,072,425	9,927,591	4,115,047	2.41
SLO	49,766	151	49,917	9,890	5.05
SWLO	3,369,435	476,670	3,846,105	1,769,953	2.17
Total	$13,000,338	$1,571,076	$14,571,414	$6,309,294	2.31

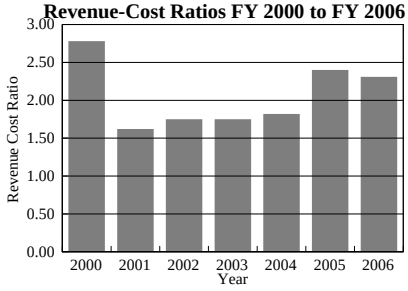
* FI revenue does not include $1,322,537 in collected revenue that was not spent on projects and is not available for distribution to the trust beneficiaries.

Costs increased slightly in FY 2006. Total costs increased from $6,297,477 in FY 2005 to $6,309,294 in FY 2006, an increase of less than 1 percent. Lower FI expenditures during this period were one of the reasons for the small increase. During this same period, revenues decreased by 5 percent.

A comparison between FY 2005 and FY 2006 revenue-cost ratios for the various land offices indicates that the ratio increased in the Northeastern Land Office and decreased in all others. The revenue-cost ratio for the Northwestern Land Office changed very little between years. Because the Northwestern Land Office accounts for over half of the revenue, it has the largest impact on the overall ratio; however, the ratio declined slightly this year. The Northwestern Land Office decline was a result of the declines in all of the other land offices except the Northeastern.

Figure A – 3 shows the revenue-cost ratios from FY 2000 to FY 2006. This year's ratio is lower than 2000 and 2005 but above the average.

Figure A-3
Montana Deparment of Natural Resources and Conservation
Revenue-Cost Ratios FY 2000 to FY 2006



Source: Montana Department of Natural Resources and Conservation

This is a cash-flow analysis and not an economic one. Many costs experienced in the current year would be expensed against future sales in an economic analysis. Long-term program health depends on the sales developed with today's costs being less than the revenue earned on future sales.

B. REAL ESTATE LANDS

Real Estate Management Bureau programs analyzed in this report include cabin site leases, special leases and licenses, land use licenses, recreational use licenses, and, to a limited extent, land banking. All of the programs differ substantially in information and characteristics. The Rights-of-Way and Land Sales programs are not included in the quantitative analysis, since these activities involve an exchange of assets, money for land, or a program expense. The money from land sales is deposited into the permanent fund where it can earn money for the trust through other investments. Land banking sales are held in a special fund that facilitates the acquisition of higher valued lands within a limited time frame.

The land base for real estate is small relative to the land base for other bureaus. A substantial share of the money from Real Estate comes from fees on lands classified as forested, grazing, and agriculture. The rate of return on many of the Real Estate activities is relatively high. However, because the revenue is dominated by cabin site leases and licenses that have a limited earnings potential (3.5 percent to 5 percent of the appraised value[6]), the overall rate of return is lower than would otherwise be expected.

Table B - 1 shows the acreage specific to Real Estate. Total acreage for FY 2006 is 21,566 acres.

[6] The Land Board raised the rate to 5 percent in 1999. This rate has been "phased in" annually on all lease renewals since 1999. This increase is reflected in the Real Estate returns.

Table B – 1 Montana Department of Natural Resources and Conservation Total Net Real Estate Management Bureau Acres by Land Office and Trust Classified "Other" Lands FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	440	0	0	75	0	355	870
ACI	636	0	0	25	20	0	681
CS	11,657	228	1,358	1,317	2,172	258	16,991
DB	372	0	0	44	0	20	436
PB	1,693	0	0	106	0	26	1,825
M Tech	211	0	6	244	0	0	461
SNS	53	0	80	51	0	14	198
SRS	2	17	5	0	0	60	84
UNIV	21	0	0	0	0	0	21
Total	15,086	245	1,448	1,862	2,192	733	21,566

Table B-1 shows the estimated acreage classified as "other" that is specific to Real Estate. Real Estate programs cover a significantly larger amount of the total trust surface acreage than lands identified in Table B-1. Programs such as recreational use licensing cover virtually the entire state, but occur almost entirely on lands whose primary use is under management of one of the other Trust Land Management Division bureaus. Acreage numbers are anticipated to change yearly as new programs are implemented to enable the Trust Land Management Division to earn more money for the trusts through real estate management.

The determination of asset value in Real Estate is a combination of several techniques. In some instances, direct appraisal information is available. For example, most cabin sites have direct appraisal information available. Some Real Estate sites also have appraisal information available. When available, the most recent appraisal was used. If the appraisal had not been updated to a 2006 level, it was updated to an estimated FY 2006 value using the implicit price deflators published by the Bureau of Economic Analysis. This approach adjusts for general price increases but does not reflect price changes due to market changes specific to an industry. The ongoing reappraisal process recognizes industry-specific changes and results in better estimates of the market value of the land. Real Estate lands without an appraisal were valued using capitalization. Over 80 percent of the asset value comes from appraisal data. The asset value per acre for Real Estate lands is $8,165 per acre compared to $7,695 in FY 2005.

Table B – 2 Montana Department of Natural Resources and Conservation Total Real Estate Asset Value by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$3,600	$0	$0	$606	$0	$2,886	$7,093
ACI	5,189	0	0	206	161	0	5,555
CS	95,081	1,904	11,242	10,704	17,778	2,093	138,801
DB	3,023	0	0	359	0	159	3,542
PB	13,803	0	0	861	0	209	14,873
M Tech	1,717	0	48	1,980	0	0	3,746
SNS	435	0	660	412	0	117	1,624
SRS	20	138	38	0	0	488	684
UNIV	169	0	0	0	0	0	169
Total	$123,037	$2,042	$11,988	$15,129	$17,939	$5,952	$176,086

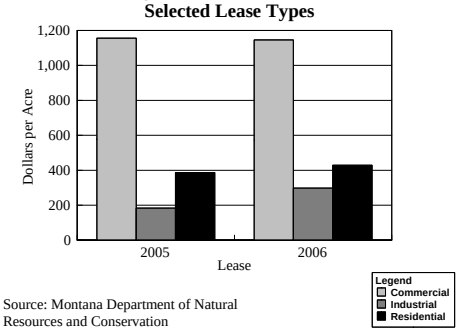
Table B - 2 shows the Real Estate estimated asset value for FY 2006. The comparatively large per-acre asset value results from the higher value asset that characterizes most of the land classified as Real Estate. Cabin sites and land in proximity to urban areas is generally of higher value than land with the primary purpose of timber production, or land used for agricultural purposes. The asset estimate includes the estimated value of minerals uses on Real Estate lands. The effect of mineral value assets is comparatively small on Real Estate lands because of their location.

The annual return to total assets is calculated by distributing the Real Estate revenue earned on non-Real Estate lands to the program where they are earned. Revenues earned by other programs (Minerals, etc.) on Real Estate lands are then added back to the Real Estate return accrual. Finally, any estimated appreciation on Real Estate lands was added to the revenue accrual. This is the annual return to total assets shown in Table B-3. This table represents the estimated earnings (appreciation and net revenue) from all sources on Real Estate lands for FY 2006.

The return is generally largest on those trusts and land offices with the most acreage. Common Schools have over 90 percent of the Trust Land in the state and have earned the largest share of revenue. The second largest trust, Public Buildings, received less than 10 percent of the revenue received by Common Schools. The total return of $10,264,000 is 32 percent more than the return reported last year.

Table B – 3 Montana Department of Natural Resources and Conservation Net Real Estate Return on Assets by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$174	$0	$0	$35	$0	$489	$699
ACI	260	0	0	27	16	0	303
CS	4,786	424	820	565	885	142	7,622
DB	148	0	1	31	0	13	192
PB	663	0	1	41	0	12	716
M Tech	87	0	7	408	0	0	501
SNS	39	0	35	30	0	7	111
SRS	9	9	4	0	0	80	103
UNIV	18	0	0	0	0	0	18
Total	$6,183	$434	$868	$1,136	$901	$742	$10,264

Figure B - 1
Montana Department of Natural Resources and Conservation
Real Estate Management Bureau Lease Value Per Acre
Selected Lease Types

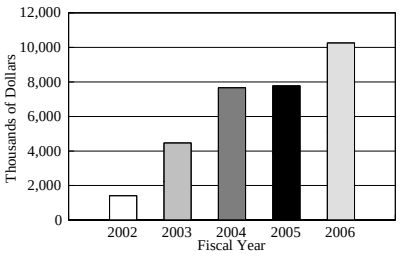


Source: Montana Department of Natural Resources and Conservation

Figure B - 1 shows the lease value per acre for selected types of leases. Commercial leases with the highest value per acre have shown little change over 2005 levels. Lease rates for residential and industrial leases have increased by over $100 and $40 per acre, respectively. This represents an increase of nearly 50% for industrial leases and 10% for residential leases.

Figure B-2 shows the actual return on assets for FY 2002 through FY 2006. Compared to previous years, the return on assets for the Real Estate Bureau increased rapidly in FY 2006. This growth reflects a combination of higher appreciation values resulting from a modified valuation approach and higher land values.

Figure B - 2
Montana Department of Natural Resources and Conservation
Real Estate Management Bureau Return to Assets
FY 2002 - FY 2006



Source: Montana Department of Natural Resources and Conservation

Table B-4 presents the rate of return on the assets by land office and trust for FY 2006. The rates do not vary substantially because some of the revenues were prorated based on acreage.

Table B – 4 Montana Department of Natural Resources and Conservation Net Rate of Return on Assets by Land Office and Trust Real Estate Management Bureau FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	4.8%	0.0%	0.0%	5.8%	0.0%	16.9%	9.8%
ACI	5.0%	0.0%	0.0%	13.1%	10.1%	0.0%	5.5%
CS	5.0%	22.3%	7.3%	5.3%	5.0%	6.8%	5.5%
DB	4.9%	0.0%	0.0%	8.6%	0.0%	8.1%	5.4%
PB	4.8%	0.0%	0.0%	4.7%	0.0%	5.5%	4.8%
M Tech	5.0%	0.0%	13.8%	20.6%	0.0%	0.0%	13.4%
SNS	9.0%	0.0%	5.3%	7.4%	0.0%	5.6%	6.9%
SRS	45.1%	6.6%	11.2%	0.0%	0.0%	16.4%	15.0%
UNIV	10.6%	0.0%	0.0%	0.0%	0.0%	0.0%	10.6%
Total	5.0%	21.2%	7.2%	7.5%	5.0%	12.5%	5.8%

The average rate of return was 5.8 percent in FY 2006. This is an 24 percent increase from the 4.7 percent return in FY 2005. The primary reason for the increase in the rate of return is additional appreciation of the land base similar to last year.

The return varied by region and trust. The overall average is usually close to the return on Common School land because Common School land dominates other trusts in terms of size. In some cases, the return is large for some land office/ trust combinations compared to the overall rate of return. This occurs because the proportion of the total value is quite small relative to the total. This year the variation was smaller than the last few years because of information and more consistent estimates.

C. AGRICULTURE AND GRAZING LANDS

The net agricultural acreage was determined from reports generated by the Trust Land Management System from data provided by the state's central system, resulting in a substantial difference in estimates of agricultural asset values and total agricultural return. Agriculture and Grazing lands comprise the largest share of state trust surface lands, accounting for over 91 percent of all surface trust acreage. Tables C - 1 and C - 2 display the total "farmed" and total "grazing" acres.

Table C – 1 Montana Department of Natural Resources and Conservation Total Farm Acres* by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	76	0	0	0	0	7	84
ACI	189	0	1,232	0	0	0	1,421
CS	113,451	76,896	341,622	723	18,616	1,067	552,375
DB	577	0	833	0	0	0	1,409
PB	2,890	0	1,021	0	0	0	3,912
M Tech	4,695	0	1,633	0	0	0	6,328
SNS	793	0	1,681	0	0	0	2,474
SRS	479	0	344	0	0	0	823
UNIV	471	696	729	0	0	0	1,896
Total	123,621	77,592	349,095	723	18,616	1,074	570,721
*Of the 570,721 farmed acres 12,999 are irrigated.							

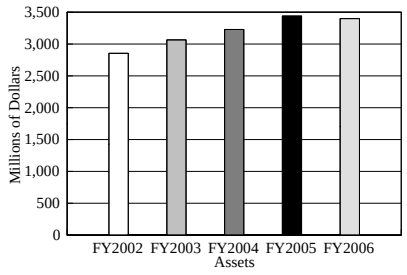
Table C – 2 Montana Department of Natural Resources and Conservation Total Grazing Acres by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	8,181	0	0	0	0	229	8,410
ACI	36,727	480	13,694	25	3,558	1,358	55,842
CS	837,431	1,127,997	1,305,773	13,935	353,582	77,421	3,716,140
DB	21,190	1,524	3,027	0	0	0	25,741
PB	92,880	228	13,105	0	0	1,562	107,775
M Tech	19,347	0	16,946	320	0	40	36,653
SNS	29,560	723	15,848	0	0	40	46,170
SRS	34,383	601	10,805	0	3,249	0	49,037
UNIV	3,189	1,998	8,706	88	480	157	14,617
Total	1,082,886	1,133,551	1,387,904	14,368	360,869	80,807	4,060,385

The distribution of agricultural acres is similar to last year with some small revisions. The majority of the assets and the return on assets for Mineral lands are included as part of the assets and return on both Agricultural and Grazing lands.

Table C – 3 Montana Department of Natural Resources and Conservation Total Net Agriculture and Grazing Assets by Land Office and Trust FY 2006 (Thousands of Dollars)							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$5,270	$0	$0	$0	$0	$143	$5,412
ACI	23,630	429	11,271	15	2,135	816	38,297
CS	607,381	983,739	1,266,609	8,848	246,915	47,224	3,160,716
DB	13,918	915	2,847	0	0	0	17,680
PB	60,037	405	9,113	0	0	939	70,495
M Tech	15,571	0	13,564	192	0	24	29,351
SNS	19,391	579	12,212	0	0	24	32,207
SRS	22,367	373	7,701	0	2,167	0	32,608
UNIV	2,352	2,377	6,942	53	310	94	12,127
Total	$769,917	$988,817	$1,330,260	$9,108	$251,527	$49,264	$3,398,894

Agriculture and Grazing values on state trust lands are determined separately by identifying the average Agriculture and Grazing value using estimates based on sales and appraisals, combined with local expertise on land sale prices. This is a revision of the previous approach which was based on general agriculture prices which were then adjusted using government indexes and regional price information. Separate Agriculture and Grazing rates are then combined based on the proportion of agriculture and grazing acres in each county. Finally, assets and returns are added from minerals; asset value on Agriculture and Grazing lands constitutes the largest share of total asset value. The asset value for agriculture and grazing lands was $734 per acre.

Figure C - 1
Montana Deparment on Natural Resources and Conservation
Asset Values FY 2002 - FY 2006



Source: Montana Department of Natural Resources and Conservation

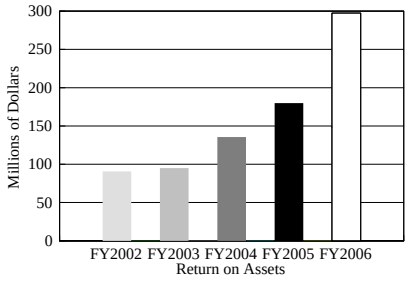
The total asset value on agricultural lands was $3,398,894,000 in FY 2006 compared to the estimated value in FY 2005 of $3,439,657,000. This amounts to about a 1% ($40 million) decrease in agriculture and grazing asset value. Figure C-1 shows a comparison of the last four years. Most of the increase resulted from increased resource prices.

Table C – 4 shows the total return on assets on agriculture and grazing lands.

Table C – 4
Montana Department of Natural Resources and Conservation
Agriculture and Grazing Return on Assets by Land Office and Trust
FY 2006 (Thousands of Dollars)

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$290	$0	$0	$1	$0	$10	$302
ACI	1,359	39	1,144	1	90	36	2,670
CS	37,069	98,944	127,004	409	17,067	2,054	282,547
DB	788	37	246	0	0	0	1,071
PB	3,122	63	528	0	0	53	3,766
M Tech	968	0	1,132	12	0	3	2,115
SNS	1,101	57	900	0	0	1	2,060
SRS	1,284	25	547	0	116	0	1,972
UNIV	156	238	577	2	17	4	994
Total	$46,139	$99,403	$132,077	$425	$17,290	$2,163	$297,496

Figure C - 2
Montana Department of Natural Resources and Conservation
Return on Assets FY 2002 - FY 2006



Source: Montana Department of Natural Resources and Conservation

The return on assets for FY 2006 was 65 percent higher than the FY 2005 figure. Figure C - 2 shows the return on assets for FY 2002 through FY 2006. The large increase for FY 2006 was the result of both increased prices and revenue for minerals and increased prices and a small increase in output for agriculture. Nearly all of the agricultural lands are underlain by minerals. Since a prorated portion of subsurface mineral returns are included as part of the surface return, agriculture and grazing show the greatest benefit from the large growth in mineral prices and revenue. This sharing of the mineral estate, coupled with the large gain in energy mineral values, is the primary reason for the large increase in the return on assets for the Agriculture and Grazing lands

Table C – 5 shows the rate of return on assets. The average rate of return in FY 2005 was 5.2 percent. The average rate of return for FY 2006 was 69 percent higher at 8.8 percent. The increase in FY 2006 was due primarily to the increase in receipts from the Minerals Management Bureau. Similar to last year, some rates of return are very high as a result of large appreciation of small acreages.

Table C – 5 Montana Department of Natural Resources and Conservation Agriculture and Grazing Net Rate of Return on Assets by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	5.5%	0.0%	0.0%	4491.2%	0.0%	7.3%	5.6%
ACI	5.8%	9.1%	10.2%	4.4%	4.2%	4.4%	7.0%
CS	6.1%	10.1%	10.0%	4.6%	6.9%	4.4%	8.9%
DB	5.7%	4.1%	8.6%	0.0%	0.0%	0.0%	6.1%
PB	5.2%	15.5%	5.8%	0.0%	0.0%	5.7%	5.3%
M Tech	6.2%	0.0%	8.3%	6.1%	0.0%	10.6%	7.2%
SNS	5.7%	9.9%	7.4%	0.0%	0.0%	6.0%	6.4%
SRS	5.7%	6.6%	7.1%	0.0%	5.4%	0.0%	6.0%
UNIV	6.6%	10.0%	8.3%	4.0%	5.4%	4.7%	8.2%
Total	6.0%	10.1%	9.9%	4.7%	6.9%	4.4%	8.8%

D. MINERAL LANDS

The trusts own nearly 6.3 million acres in mineral rights. These rights are categorized for analysis purposes as coal, oil and gas, and other minerals. Coal and oil and gas generated nearly 99 percent of the mineral resource revenue in FY 2006. The remaining 1 percent came from all other sources, mostly sand and gravel extraction. Because the extraction of the various minerals is generally not mutually exclusive, the value of the minerals and the asset values of each mineral is additive. Each mineral's asset value is estimated separately and then added to achieve a total value. The subsurface values can be added to the surface values to obtain a total estimate of values for the trust. This section provides the distribution of acreages by trust and land office and utilizes this information in conjunction with earnings to develop an asset value and rate of return on mineral properties.

Tables D-1a through D-1c show the acreage associated with each of the mineral resource categories. The largest number of acres is associated with oil and gas, followed by coal, and then other minerals.

Table D – 1a Montana Department of Natural Resources and Conservation Total Coal Subsurface Acres by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	22,818	0	40	12,732	0	11,487	47,077
ACI	41,768	480	22,168	4,000	5,178	3,655	77,249
CS	1,383,334	1,211,995	1,959,457	262,068	422,923	212,493	5,452,271
DB	25,367	0	4,309	9,659	0	1,835	41,171
PB	136,236	1,080	18,101	40,574	0	32,312	228,304
M Tech	42,664	228	26,492	12,176	0	4,707	86,267
SNS	49,461	28	19,369	10,166	0	4,516	83,540
SRS	50,729	760	12,875	1,469	3,850	9,061	78,744
UNIV	9,681	3,165	16,712	524	1,120	2,553	33,754
Total	1,762,059	1,217,736	2,079,524	353,368	433,071	282,620	6,128,378

Table D – 1b Montana Department of Natural Resources and Conservation Total Oil and Gas Subsurface Acres by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	22,373	0	0	12,732	0	11,487	46,592
ACI	41,768	480	22,168	4,000	5,178	3,655	77,249
CS	1,350,856	1,307,433	2,051,407	262,228	433,092	207,222	5,612,239
DB	25,367	0	4,309	9,659	0	1,835	41,171
PB	92,953	1,080	5,487	40,974	0	32,312	172,806
M Tech	42,664	228	26,492	12,176	0	4,707	86,267
SNS	49,461	766	15,481	10,166	0	4,516	80,389
SRS	50,457	760	8,510	1,469	3,850	9,061	74,107
UNIV	9,681	3,165	16,712	524	1,120	2,553	33,754
Total	1,685,580	1,313,912	2,150,566	353,928	443,240	277,349	6,224,575

Table D – 1c Montana Department of Natural Resources and Conservation Total Other Mineral* Subsurface Acres by Land Office and Trust FY 2006							
	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	20,578	0	40	12,660	0	9,740	43,017
ACI	38,253	480	16,608	3,880	5,018	3,495	67,734
CS	1,244,156	1,294,515	1,842,864	251,938	408,358	182,555	5,224,387
DB	24,132	0	3,680	8,667	0	1,475	37,955
PB	118,200	1,617	18,839	40,377	0	30,510	209,543
M Tech	34,331	0	19,105	11,240	0	3,867	68,542
SNS	42,237	0	21,479	10,125	0	4,176	78,017
SRS	48,527	0	12,795	1,469	3,249	5,942	71,982
UNIV	5,026	0	10,061	364	480	1,917	17,847
Total	1,575,440	1,296,612	1,945,470	340,719	417,105	243,677	5,819,023
* Includes all minerals except coal, oil, and gas							

Coal, oil, and gas asset values are calculated by first estimating known reserves. The asset value is estimated by multiplying the industry net revenue (per unit profit) times the estimated production for the life of the field or deposit and then discounting this net revenue stream back to its present value. Production life is estimated using known reserves and most recent production levels to determine the duration of production. The Minerals Management Bureau leased 1,731,749 acres for all minerals in FY 2006.

In estimating reserves on coal and, in particular, oil and gas, the reserves vary with the price. As the price increases, additional oil, gas, and coal become economic to produce, and the size of the reserve estimate increases. The converse is true if prices fall. For purposes of this analysis, it was assumed:

1. The current price will hold throughout the entire production of the field;

2. Only known reserves, those based on current producing fields, are used in the estimate. Reserve estimates are updated periodically to reflect the impact of price changes; and

3. Production is continued at its current rate until the estimated reserves are depleted.

The federal government periodically publishes known mineral reserve estimates for each state. This reserve estimate was used as the basis of estimating the asset value for minerals in the Montana. The analysis assumes that, on average, the occurrence, type, and volume of reserves is the same on state-owned trust lands as on other state land. The method used to estimate asset value for each different

mineral category is discussed below. A summary of the mineral commodity asset values is shown in Table D-2.

While acreage changes can have a small impact on asset values, other factors such as price changes have a much greater influence on changes to asset values and rates of return.

Table D – 2
Montana Department of Natural Resources and Conservation
Total Mineral Asset Value by Land Office and Trust
FY 2006 (Thousands of Dollars)

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$839	$0	$0	$15	$0	$12	$867
ACI	1,567	141	2,895	5	293	4	4,905
CS	45,318	284,529	329,079	307	26,843	221	686,296
DB	953	0	572	11	0	2	1,537
PB	3,520	305	780	49	0	37	4,691
M Tech	1,594	67	3,508	14	0	5	5,188
SNS	1,851	154	2,104	12	0	5	4,127
SRS	1,895	41	1,141	2	239	7	3,327
UNIV	358	890	2,206	0	52	2	3,509
Total	$57,897	$286,127	$342,285	$415	$27,427	$295	$714,446

For oil and gas, asset estimates are made using the estimated profit from oil production to determine net industry rate profit. The profit level is obtained from data published by the Energy Information Administration and the U. S. Geological Survey. The asset value of the field is determined by first multiplying the rate of profit by the Montana price per barrel and then multiplying this amount by the current production level extended until the field is depleted. This revenue stream is then discounted back at 4 percent to its present value. This number is the estimated asset value. A similar approach is used to determine the asset value of gas. The value for oil and gas is relatively large because of the relatively large profit margins.

A similar method is used for coal but, because of a lower profit margin, the annual value of the income stream is much smaller[7]. However, the large size of the coal reserves extends the production period and increases the asset value. In addition, national forecasts predict a decline in the price of coal into the foreseeable future. Environmental restrictions make it more difficult to utilize coal to produce energy rather than using other energy-producing minerals. Another limit on Montana's coal reserve estimates is that Montana has large quantities of relatively low-grade coal, which increases energy production costs.

[7] The smaller income stream to producers has little short-term impact on the revenue received by the state for its coal royalties. The lower income level has a significant impact on the asset value of the reserves.

For these reasons, the time period used to estimate the asset value of coal reserves was limited to 30 years.

Assets for other minerals (mostly sand and gravel) were estimated by capitalizing the current level of production using a 6.4 percent average corporate bond yield rate.

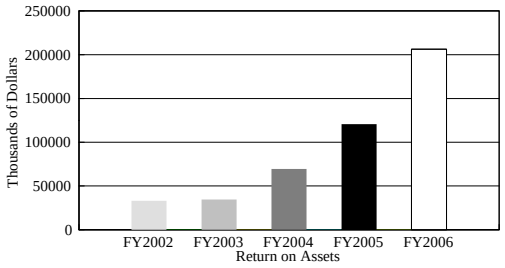
Asset values were up strongly again this year as higher reserves for oil and gas coupled with higher prices increased the asset value. The ability to sustain these high asset values in the future will be dependent on sustaining these high levels. Early indications for FY 2007 are for a decline in prices, although it is too early to be certain.

Table D – 3
Montana Department of Natural Resources and Conservation
All Mineral Return to Assets by Land Office and Trust
FY 2006 (Thousands of Dollars)

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	$217	$0	$0	$2	$0	$3	$222
ACI	421	27	951	0	41	0	1,440
CS	15,733	74,473	99,862	22	8,692	23	198,806
DB	250	0	150	1	0	0	402
PB	982	60	216	10	0	3	1,271
M Tech	415	13	938	22	0	0	1,389
SNS	482	42	560	1	0	0	1,085
SRS	498	9	298	0	30	0	835
UNIV	95	180	583	0	9	0	866
Total	$19,094	$74,803	$103,558	$59	$8,772	$31	$206,316

The return on assets for FY 2006 is shown in Table D – 3. The return from mineral lands increased by 71% in FY 2006. A rate higher in percentage terms than the previous two years. The FY 2005 return was $120,579,000 compared to $206,316,000 in FY 2006. The increase is due primarily to an increase in resource values, particularly oil and gas prices; however, increased production also improved the return. The higher prices also resulted in higher net revenue from minerals which increased from $22,773,000 in FY 2005 to $41,523,000 in FY 2006.

Figure D - 1
Montana Department of Natural Resources and Conservation
Return on Assets - Minerals



Source: Montana Department of Natural Resources and Conservation

Figure D - 1 and Table D - 4 show the return on total mineral assets for FY 2002 though FY 2006. The return is up strongly in FY 2006. The rate of return on

assets is also up in FY 2006. The rate of 28.9 percent in FY 2006 is up 3.6 percent over the rate in FY 2005. The reason that the rate of return increased as fast as the total return is that the asset values increased strongly in FY 2006 also. By a large margin, minerals have the largest overall rate of return.

Table D – 4
Montana Department of Natural Resources and Conservation
Rate of Return on Mineral Assets by Land Office and Trust
FY 2006

	Land Office						
Trust	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
ACB	25.9%	0.0%	0.1%	13.5%	0.0%	24.1%	25.7%
ACI	26.9%	18.9%	32.8%	7.3%	13.9%	7.6%	29.4%
CS	34.7%	26.2%	30.3%	7.3%	32.4%	10.4%	29.0%
DB	26.3%	0.0%	26.2%	7.7%	0.0%	27.2%	26.1%
PB	27.9%	19.7%	27.7%	20.8%	0.0%	7.1%	27.1%
M Tech	26.1%	19.0%	26.7%	162.1%	0.0%	7.3%	26.8%
SNS	26.0%	27.0%	26.6%	7.6%	0.0%	7.1%	26.3%
SRS	26.3%	20.9%	26.1%	3.1%	12.7%	5.1%	25.1%
UNIV	26.4%	20.2%	26.4%	7.6%	17.0%	7.6%	24.7%
Total	33.0%	26.1%	30.3%	14.2%	32.0%	10.3%	28.9%

E. EMPLOYEE DISTRIBUTION AND EXPENSES

The allocation of expenses between land offices is based on several factors. The most important factor is the distribution of employees between the land offices as shown in Table E – 1. Headquarters or regional administrative employees are allocated based on the distribution of regional employees. Fractional employment represents employees who work in one or more bureaus or land offices. The table does not include employees funded through either FI or general fund monies. Total positions allocated are 129, although the table reflects only positions "filled" throughout the year.

Table E – 1
Montana Department of Natural Resources and Conservation
Employment Allocated between Bureaus and Land Offices
FY 2006

	Land Office						
Bureau	**CLO**	**ELO**	**NELO**	**NWLO**	**SLO**	**SWLO**	**Total**
Forest Mgmt.	4.42	0.53	0.92	45.64	0.00	19.34	70.84
Ag. & Grazing	5.77	4.35	10.52	0.00	1.98	0.79	23.41
Real Estate	3.29	0.99	0.00	8.23	1.65	5.76	19.91
Minerals Mgmt.	3.23	3.69	5.21	0.49	1.46	0.37	14.45
Total	16.72	9.56	16.65	54.35	5.08	26.25	128.61

Table E – 2 on the following page shows the total acres by bureau, land office, and trust.

Table E–2
Montana Department of Natural Resources and Conservation
Total Acres by Bureau and Land Office and Trust

Land Office		ACB	ACI	CS	DB	PB	M Tech	SNS	SRS	UNIV	Total
NWLO	Ag & Grazing	-	25	14,658	-	-	320	-	-	88	15,091
	Forest Mgmt.	12,187	3,375	209,376	8,584	40,591	10,676	10,154	1,309	277	296,527
	Minerals*	12,732	4,000	262,228	9,659	40,974	12,176	10,166	1,469	524	353,928
	Real Estate	75	25	1,317	44	106	244	51	-	-	1,862
SWLO	Ag & Grazing	237	1,358	78,488	-	1,562	40	40	-	157	81,881
	Forest Mgmt.	9,073	2,137	95,331	1,176	29,029	3,827	3,873	4,928	1,760	151,135
	Minerals*	11,487	3,655	207,222	1,835	32,312	4,707	4,516	9,061	2,553	277,349
	Real Estate	355	-	258	20	26	-	14	60	-	733
CLO	Ag & Grazing	8,257	36,916	950,882	21,766	95,770	24,042	30,353	34,861	3,660	1,206,507
	Forest Mgmt.	800	-	13,402	640	2,564	1,267	585	11,770	-	31,028
	Minerals*	22,373	41,768	1,350,856	25,367	92,953	42,664	49,461	50,457	9,681	1,685,580
	Real Estate	440	636	11,657	372	1,693	211	53	2	21	15,086
NELO	Ag & Grazing	-	14,926	1,647,396	3,860	14,126	18,579	17,529	11,149	9,435	1,736,999
	Forest Mgmt.	-	-	642	-	-	-	-	-	-	642
	Minerals*	-	22,168	2,051,407	4,309	5,487	26,492	15,481	8,510	16,712	2,150,566
	Real Estate	-	-	1,358	-	-	6	80	5	0	1,448
SLO	Ag & Grazing	-	3,558	372,198	-	-	-	-	3,249	480	379,485
	Forest Mgmt.	-	-	-	-	-	-	-	-	-	-
	Minerals*	-	5,178	433,092	-	-	-	-	3,850	1,120	443,240
	Real Estate	-	20	2,171	-	-	-	-	-	-	2,191
ELO	Ag & Grazing	-	480	1,204,893	1524	228	0	723	601	2,694	1,211,143
	Forest Mgmt.	-	-	-	-	-	-	-	-	-	-
	Minerals*	-	480	1,307,433	-	1,080	228	766	760	3,165	1,313,912
	Real Estate	-	-	228	-	-	-	-	17	-	245
Total	Ag & Grazing	8,494	57,263	4,268,515	27,150	111,686	42,981	48,644	49,860	16,512	4,631,106
	Forest Mgmt.	22,060	5,512	318,751	10,400	72,184	15,770	14,613	18,007	2,037	479,332
	Minerals*	46,592	77,249	5,612,239	41,171	172,806	86,267	80,389	74,107	33,754	6,224,575
	Real Estate	870	681	16,991	436	1,825	461	198	84	21	21,566

* Mineral acres are based on the oil and gas acres, which comprise the most mineral subsurface acres.